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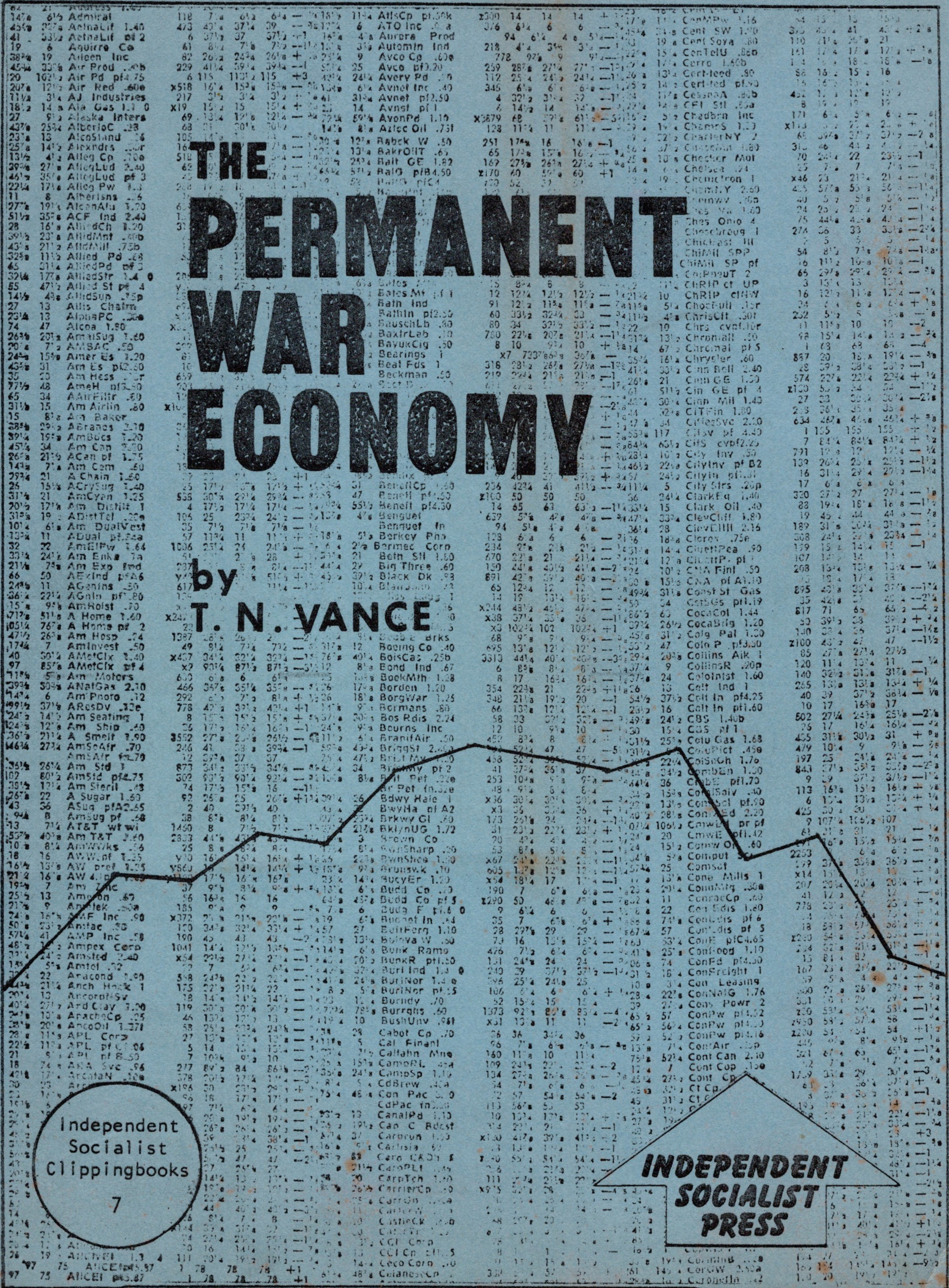
THE PERMANENT WAR ECONOMY

by

T. N. VANCE



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BY

T. N. VANCE

et al.

Edited by Hal Draper

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FOREWORD

This volume contains a selection of materials from *The New International* and *Labor Action* on the subject of the "permanent war economy," i.e., the present stage of capitalism. It presents an approach to the Marxist analysis of late-capitalism, or "neo-capitalism," which is quite different from, say, that of André Gorz or Ernest Mandel or Baran-Sweezy. It definitively rejects the notion, implicit in Gorz and others, that capitalism has "solved the economic question" and that socialists must therefore base themselves on other problems (such as "life styles" for some); and it presents an analysis which shows up the extreme superficiality of the treatment of this question in Mandel's much overrated *Traité d'Economie Marxiste* (in English as *Marxist Economic Theory*).

The bulk of the following pages is by T. N. Vance—the pen name used by a professional economist employed in the business world and specializing in the analysis of business trends. Vance had previously written on the same subject in the magazine *Politics* for February 1944 under the name Walter J. Oakes (note the discussion of this Oakes article in the first chapter); before that, he had discussed aspects of the war economy in *The New International* under the name Frank Demby (especially in the *NI* of September 1941).

His main work on the subject, published here in full, originally appeared in six installments (chapters) in *The New International* in 1951 (from the January/February issue to the November/December issue).

Vance's work is presented here, not as the last word on the subject, but rather as the first serious attempt at an in-depth treatment. He had occasion to modify some views in subsequent articles, the salient sections of which are also included here; and we are by no means of the opinion that all of his statements are infallible. For all that, there is nothing else like this pioneer work.

The abbreviations *NI* and *LA* are used throughout for *The New International* and *Labor Action*.

HAL DRAPER

THE PERMANENT WAR ECONOMY

T. N. Vance

1. Basic Characteristics

With the beginning of World War II, both American and world capitalism entered a new epoch—the era of the Permanent War Economy. This was not easily discernible in the immediate postwar period and it is only now, after the outbreak of the Korean war, that there is growing awareness that capitalism has entered a new stage. Its political basis of "neither peace nor war" was demonstrated in "After Korea—What?" in the previous issue of THE NEW INTERNATIONAL. Whether American armed forces are continuously engaged in active combat is immaterial to the *nature* of the new period in which we live. That is merely a *tactical* aspect in the current struggle for world supremacy between American and Stalinist imperialisms. In fact, the character of the Permanent War Economy, because it operates in either "peace" or "war," is most clearly delineated precisely when American armed forces are *not* engaged in open hostilities.

In the same article, by analyzing the gigantic growth in output during the war and the maintenance of this high level of production since the war, together with the huge accumulation of capital, we have really provided the key data underlying the economic basis of the Permanent War Economy. Its essential features can be seen by examining the entire period since 1939, remembering that never before in the history of the United States have expenditures for war or "national defense" purposes in peacetime exceeded one or one and one-half per cent of total output. In other words, prior to the advent of the Permanent War Economy the end-purpose of economic activity, other than in wartime, was to satisfy consumers' wants through the production and distribution of commodities that yielded a profit or other form of surplus value to the capitalist. War outlays were so negligible in peacetime that they could be ignored in any analysis of the economy for they had no real measureable impact.

During the century and more of the development of modern capitalism, since the first industrial crisis of 1825, the capitalist sought his profit in the marketplace through the production of consumer goods and services. Some capitalists, of course, made a profit through the production of means of production (fixed capital) but such machinery was intended for the use of other capitalists who, in turn, would employ the machines to produce consumer commodities more profitably than could otherwise be done. This was the typical *modus operandi* of capitalism up to and into the period of its decline, except in wartime, until the beginning of the Permanent War Economy. It governed all phases of the business cycle.

To be sure, relatively small standing armies and navies were accepted. Even in European countries that practised conscription, however, these armed forces were distinguished by their smallness. With only a handful of exceptions, the bourgeoisie did not look to government war orders or "defense contracts" as an important source of business or profit. When a war came, it was universally regarded as an interruption of normal activity, even if it yielded imperialist profits and markets. When a war ended, it was the bourgeoisie who took the lead in resuming production of peacetime commodities and who, for the most part, resented any governmental attempt to maintain a larger armed force than had previously existed in peacetime. While war was normal in the sense that it occurred every so often, and was an acceptable instrument of national policy, it was abnormal in that large expenditures for war purposes in peacetime were not socially acceptable and that morally war and war outlays were to be avoided if at all possible.

THE DOMINANT CHARACTERISTIC of the Permanent War Economy is that war output becomes a legitimate end-purpose of economic activity. This development and its basic significance were analyzed by Walter J. Oakes in an article in the February, 1944, issue of *Politics*, entitled "Toward a Permanent War Economy?" Oakes' definition remains perfectly valid to this day: "A war economy . . . is not determined by the expenditure of a given percentage of a nation's resources and productive energies for military purposes. This determines only the *kind* of war economy—good, bad, or indifferent from the point of view of efficiency in war-making. The question of amount, however, is obviously relevant. At all times, there are *some* expenditures for war or 'national defense.' How much must the government spend for such purposes before we can say a war economy exists? In general terms, the problem can be answered as follows: *a war economy exists whenever the government's expenditures for war (or 'national defense') become a legitimate and significant end-purpose of economic activity.* The degree of war expenditures required before such activities become *significant* obviously varies with the size and composition of the national income and the stock of accumulated capital. Nevertheless, the problem is capable of theoretical analysis and statistical measurement." (Italics in original.)

We shall return to Oakes, both his contributions and his mistakes. We now have, however, a large body of factual data from 1939 to 1950. We can also project our data through 1953 with a fair amount of accuracy on the basis of what is currently known regarding Washington's plans. Only one major assumption is required; namely, that large-scale global hostilities involving the armed forces of the United States will not take place before 1954. We shall then have a period of fifteen years to analyze. With the rapid movement of history in the twentieth century this is sufficient to isolate the major features of the Permanent War Economy, to discover its basic laws of motion and to propose what now appear to be proper strategy and tactics for the independent socialist movement.

It is clear that we must begin with the relationship between war outlays and total output. As a first step, we can take the government's official figures for "national defense and related activities" as a percentage of gross national product, net national product and national income. These data for 1939-1953 are shown in Table A.

The use of either gross national product, net national product, or national income as a measure of total output does not alter the basic relationships or trends involved. The definition of war outlays, and therefore the choice of series selected, is, however, of some significance. Inasmuch as it is desirable to use official government figures wherever possible, without distorting the picture that emerges, we have selected the series called "national defense and related activities" as our measure of direct war outlays. We could have used the Federal war component of gross national product, as estimated by the National Income Division of the Department of Commerce. Aside from the fact that Commerce has not published the breakdown between Federal war and non war purchases since 1946, this latter series, although based on Treasury classifications of expenditures, runs at a somewhat lower level than the former, apparently being more closely confined to the heart of war expenditures as represented by the Department of Defense.

Under the Commerce concept, for example, the peak of war outlays in 1944 is $88,615,000,000 against the $90,888,000,000 shown in the table. While this is a difference of more than $2 billion, the percentage of resources devoted to direct war output at the peak of the war effort is only reduced from 42.5 per cent to 41.5 per cent of gross national product or, in the case of net national product, from 45 per cent to 43.9 per cent. A shift of one or two percentage points in the ratio of war output to total production is of little consequence to our analysis and well within the margin of error in all the estimates. Both series, moreover, possess almost identical trend lines except for the year 1941 where, inexplicably, the Commerce series is one billion dollars higher than the Treasury series. This discrepancy may be due to arithmetical error or, more probably, to different procedures in allocating war expenditures by years.

At any rate, as explained in the 1949 statistical supplement to the *Survey of Current Business*, "expenditures for 'national defense and related activities' currently include those of the Departments of the Air Force, the Army, and the Navy; payments under Armed Forces Leave Act; expenditures of the U. S. Maritime Commission, UNRRA, surplus property disposal agencies, and the Reconstruction Finance Corporation (after July 1, 1947, expenditures of RFC for national defense and related activities were not segregated from other expenditures of the Corporation and its affiliates, which are included under 'other' expenditures)." Conceptually, this appears to represent a fairly good measure of direct war outlays and is, in any case, the best available. It permits a relatively accurate analysis of the impact of direct war outlays on the economy.

TABLE A: RELATIONSHIP OF WAR OUTLAYS TO TOTAL OUTPUT, 1939-1953
(Dollar Figures in Millions)

Year	*Gross National Product (1)*	*Net National Product (2)*	*National Income (3)*	*War Outlays (4)*	*Col. (4) As % of Col. (1) (5)*	*Col. (4) As % of Col. (2) (6)*	*Col. (4) As % of Col. (3) (7)*
1939	$91,339	$83,238	$72,532	$1,356	1.5%	1.6%	1.9%
1940	101,443	93,003	81,347	2,772	2.7	3.0	3.4
1941	126,417	117,123	103,834	12,708	10.1	10.9	12.2
1942	161,551	151,570	137,119	50,892	31.5	33.6	37.1
1943	194,338	183,658	169,686	83,172	42.8	45.3	49.0
1944	213,688	201.801	183,838	90,888	42.5	45.0	49.4
1945	215,210	202,800	182,691	78,756	36.6	38.8	43.1
1946	211,110	198,947	180.286	24,087	11.4	12.1	13.4
1947	233,264	218,419	198,688	14,541	6.2	6.7	7.3
1948	259,071	241,676	223,466	11,201	4.3	4.6	5.0
1949	255,578	236,806	216,831	12,847	5.0	5.4	5.9
1950*	278,000	257,000	234,000	15,922	5.7	6.2	6.8
1951*	300,240	279,359	251.550	40,095	13.4	14.4	15.9
1952*	315,252	293,327	263,373	46,920	14.9	16.0	17.8
1953*	321,557	299,194	268,377	54,285	16.9	18.1	20.2

*Data for 1950-1953 are estimated, as explained in the text; 1950 national income and product data are based on Department of Commerce figures for the first half of the year, with 1950 war outlays based on expenditures for "national defense and related activities" as reported by the Treasury Department for the first eight months of the year.

WAR OUTLAYS, AS THUS DEFINED, were projected for the last four months of 1950 and for 1951-1953 on a fairly crude basis, in the absence of any detailed public information on military requirements and related programs. The method used was to assume an armed forces manpower trend from the latest published figures, including such information as is available on the draft, and the announced goal of reaching an armed force of three million by mid-1951. A "salary" ratio for average military personnel was then developed on the basis of published data for military wages and salaries, which assumes only a very modest increase from 1949 to 1953 in the cost of maintaining average military personnel. While this factor is subject to some margin of error, it is necessarily small. A more serious difficulty was encountered in the second step of the projection, which was to develop an "equipment" ratio to relate total expenditures of the Department of Defense to total military wage and salary payments. Here the assumption of increasing fire power and mechanization, although based on past experience, is essentially arbitrary. To compensate for any possible overstatement inherent in the method, or for any lag in military procurement, the projection excludes any attempt to forecast the trend in the "related activities" portion of our war outlays series. Expenditures for direct war outlays of $40.1 billion in 1951, $46.9 billion in 1952 and $54.3 billion in 1953 were obtained, as can be seen from column (4) in the table on "Relationship of War Outlays to Total Output." These results conform rather closely to the guarded public statements of leading officials in the Department of Defense. If anything, our figures appear to be on the conservative side.*

The projections of the total output measures, gross national product, net national product and national income, were based on fairly straightforward extrapolations of existing trends. Allowance was made for increasing indirect business tax liabilities, thus accounting for the somewhat smaller rate of increase in national income as compared with national product, both gross and net. With the exception of 1951, when it is assumed that many defense plants idle since the end of the war will be reactivated, constant rates of capital consumption have been assumed. Virtually identical trends in both gross and net national product thus result.

***Editor's Note: The President's budget message recommends an expenditure of $41.4 billion for military services during the coming fiscal year, corresponding rather closely to the author's forecasts.**

It should be kept in mind that the method employed makes rather full allowance for rising prices in 1950, but only partially anticipates the inflation that is bound to occur in 1951 and makes virtually no allowance for rising prices in 1952 and 1953. This, however, is entirely consistent with the method used to project war outlays, which likewise largely ignored the effects of inflation on military salaries and procurement, thereby permitting fairly accurate measurement of the relationships involved.

It is recognized that more accurate results would be obtained if the relationship between war outlays and total output were expressed in constant rather than in current dollars, for it may be safely assumed that price rises in the war sector *during a major war* outstrip price rises in the civilian sector. It should be emphasized, however, that this would be noticeable in columns (5), (6) and (7) only for the years 1942-1945. Inasmuch as the difference would not be significant (at the peak of the war effort in 1943-1944, war outlays would still take at least 40 per cent of gross national product in real terms as compared with 42.8 per cent or 42.5 per cent) and the statistical measure could only be the crudest sort of approximation, we accordingly sacrifice theoretical to practical considerations and make no attempt to express our data in constant dollars.

In view of the fact that war outlays are gross (that is, they make no allowance for the consumption of capital in the war sector), it may be wondered why the relationship betwen war outlays and total output is not confined exclusively to gross national product. In theory, this would indubitably be a sounder procedure. In practice, however, this would tend to understate the impact of war and the Permanent War Economy, for the definition of war outlays is relatively narrow and restricted. It is confined exclusively to the Federal government, and hardly covers all direct war-induced outlays in this sphere. It omits all private expenditures that may directly or indirectly result from war or war preparations.

If, for example, we posit an economy in which war and war preparations are non-existent, think of all the expenditures in the private sector that would be abandoned, thereby freeing these resources for the satisfaction of consumer wants. Included would be such matters as all private expenditures for civil defense, an unknown percentage of the output of the chemical, aviation and other industries that is not financed by the government, an unknown percentage of various aspects of privately-financed research, and without question a significant portion of the outlay for all forms of transportation. Moreover, the consumption of capital in the war sector is relatively small compared with the civilian sector. In view of all these considerations, not to mention certain conceptual and statistical limitations in the measurement of gross national product, we are of the opinion that the relationship between war outlays and net national product, as shown in column (6), is the best single measure available of the impact of direct war preparations and production and that the range of probable error in the estimates is adequately shown by columns (5) and (7).

WHILE TOTAL REAL OUTPUT ROSE steadily during the war, with relatively minor fluctuations since the end of the war, it will now be further increased until by 1953 production will approximate the peak achieved during the last war. Meanwhile, war outlays rose much faster than total output during World War II, thereby reflecting both the increase in total output and the shift of resources from civilian to war production. In percentage terms, the 1.6 per cent of total output devoted to war outlays in 1939 represents, insignificant as it may be, an extremely high level for a peacetime year before the development of the Permanent War Economy. The economy of the United States was for the last time to lag behind the rest of the *capitalist* world in conforming to the requirements of the Permanent War Economy. By 1940, with three per cent of production devoted to war purposes, American imperialism began in rather hesitating fashion, while war was engulfing the world, to develop its own war economy. With war outlays taking about 11 per cent of total output in 1941, the percentage then rose more than fourfold to about 45 per cent in 1943-1944 as American imperialism crushed the challenge of German and Japanese imperialisms, aided of course by the Allies.

There then occurred a sharp decline, until Korea, in the ratio of war outlays to total output. It is most significant, however, that the decrease in war outlays or in the ratio between war outlays and total output did not approach the low levels of 1939 or even of 1940. Here is the first real evidence of the change ushered in by the Permanent War Economy. Even at their low point in 1948, direct war outlays of more than $11 billion, representing almost 5 per cent of total output, are hardly insignificant. They will now rise sharply, although not as rapidly as during World War II. Nevertheless, there will immediately be a threefold rise in direct war outlays and, by 1952-1953, a threefold increase in the ratio of war outlays to total output.

We are, so to speak, in a situation comparable to 1941. This does not mean that 1942 has to follow immediately. On the contrary, as already explained, there is every reason to believe that all-out shooting war will not take place for several years. It does mean, however, that war expenditures have indeed become both a *legitimate* and *significant* end-purpose of economic activity. As a consequence, economic theory (both bourgeois and Marxist) will have to be modified in several important respects. Consider, for example, the following statement of Simon Kuznets, the outstanding pioneer in the field of national income in the United States, in his book, "National Product in Wartime," published in 1945: "In conclusion, we stress the dependence of the concept and the estimates upon the definition of the purpose of economic activity. National product cannot be measured for the years of a major war as it is in peacetime because the customary long-run assumptions concerning the goals of economic activity are not basic."

It is precisely the goals of economic activity that the Permanent War Economy has changed. *Sizable outlays for "defense" are now normal and socially acceptable.* It may even be suspected that these war outlays play an important role in sustaining a generally high level of economic activity. This appears to be clear when the ratio of war outlays to total output exceeds 10 per cent but what about the period from 1947-1950 when the percentage hovered around five and six per cent? Direct war outlays may have been below the "critical" point in these years, but the picture is considerably altered when indirect war outlays are included in our analysis.

ASIDE FROM THE EXPENDITURES of the Department of Defense and the relatively minor additional outlays included in the series on "national defense and related activities," our measure of direct war outlays, there are a whole host of programs in which the Federal government is engaged that stem directly or indirectly from previous wars or are an integral part of American imperialism's preparations for World War III. These fall into two broad categories: foreign economic and military aid, whose essential purpose is to obtain allies and markets for American imperialism; and certain domestic programs, such as all the expenditures of the Veterans

Administration, that are imposed on the national state as the only feasible method of carrying them out. While some of these expenditures, although from different motives and with different results, would have to be incurred by a workers' state, they are clearly a product of the Permanent War Economy. Failure to include them in our analysis would distort the entire nature and impact of the new stage in the history of capitalism.

Indirect war outlays are really a new phenomenon in the sense that they first become sizable in the post-World War II period, as can be seen from Table B, which also permits a comparison of the relative importance of direct and indirect war outlays and an analysis of their combined impact on total output.

Our estimates of indirect war outlays have been built up by analyzing in detail each program that it appeared proper to include in our classification and by projecting those programs that appear reasonably certain to continue on as conservative and realistic a basis as possible. If anything, our figures understate the true magnitude of indirect war outlays. In keeping with our entire approach, only government programs have been considered. The exclusion of all indirect private war outlays leaves out such febrile activities as building of atomic bomb shelters and preservation of records in bomb-proof vaults, to mention only the obvious. Then, we have made only token allowance for state and local government expenditures for civil defense and related matters. Moreover, we have failed to identify all the Federal programs that should be included under the classification, "indirect war outlays." For example, no attempt has been made to include RFC loans for "defense" purposes, which have been excluded since July 1, 1947 from direct war outlays. In addition, propaganda activities of the Federal government, such as the "Voice of America," are excluded from our figures, but are clearly part and parcel of war preparations, at least in large measure.

Our projections of the major programs comprising indirect war outlays have assumed that the Republican gains in Congress will be reflected in a more careful scrutiny of all such expenditures, although no fundamental change in policy is anticipated. Dollar-wise, the most important program is represented by the Veterans Administration, which reached a peak of $7.1 billion in 1947 and remained at $6.8 billion during 1948 and 1949. Although current expenditures of the Veterans Administration are running at the rate of $6 billion annually, we have reduced this item to $5 billion in 1951 and only subsequently do we project a modest increase in view of the expanding size of the armed forces.

With regard to the so-called Mutual Defense Assistance Program, which covers all forms of military aid to Atlantic Pact nations, Greece, Turkey, etc., it is difficult to see how this can be less than the $5 billion projected in 1952 and 1953. If any serious attempt is made to contain Stalinist imperialism in Asia, this type of expenditure may be expected to increase markedly above present insignificant levels. Despite the Gray report, our projections for the Marshall Plan, Point Four and Export-Import bank loans have been extremely modest. They total $2.7 billion in 1951, $2 billion in 1952 and only $1.5 billion in 1953. In the case of the Point Four program, for which the Gray report recommends an annual expenditure of 500 million dollars, our peak projection reaches only $200 million. All remaining foreign aid programs are inconsequential in magnitude. Our analysis remains unaffected even if they were to be completely eliminated, but such cannot be the case since they include Korean aid and other programs that will be operated mainly through the United Nations.

Because a portion of the data was obtained on a fiscal year basis, there may be certain adjustments required in the allocations by calendar year, but these are unlikely to be serious. The only place where there is any possible overstatement of indirect war outlays is in our assignment of total expenditures by the Atomic Energy Commission to this category. There is no basis, however, for allocating any portion of such activities to civilian output and the safest procedure seemed to be to assign total appropriations, as reported in the Federal Budget, to indirect war outlays. The fact that AEC procurement now carries a "D. O." priority rating indicates that the government considers this program an integral part of the "defense" program.

We have deliberately omitted inclusion of net interest on the national debt, now running well over $5 billion a year, from our concept of war outlays because the Department of Commerce in its basic revision of 1947 eliminated such payments from the national income and product. It may well be that government interest payments "do not represent currently produced goods and services or the current use of economic resources," as Commerce contends, although even this would be true only when the government is operating at a deficit which exceeds total net interest payments on the national debt. We find most unconvincing, however, the statement in the July 1947 *National Income Supplement to Survey of Current Business* that "it seems sensible that a comparison of the prewar and postwar volume of production should not be distorted by the continuing interest on the national debt that arose during the war." On the contrary, the rise in the national debt and the enormous interest burden thereby created are basic characteristics of the Permanent War Economy and should be considered in any analysis of production or its distribution. While this is particularly true of the relationship between war outlays and total output, we refrain from making the adjustment in order to avoid any theoretical controversies, but we feel that this omission is an added reason for believing that our ratios of war output to total production are conservative.

TABLE B: DIRECT AND INDIRECT WAR OUTLAYS, 1939-1953 AND THEIR RELATIONSHIP TO TOTAL OUTPUT

(Dollar Figures in Billions)

Year	Net National Product* (1)	WAR OUTLAYS Direct* (2)	Indirect (3)	Total (4)	Col. (2) As % of Col. (1)* (5)	Col. (4) As % of Col. (1) (6)
1939	$83.2	$1.4	$0.6	$2.0	1.6%	2.4%
1940	93.0	2.8	0.8	3.6	3.0	3.9
1941	117.1	12.7	1.2	13.9	10.9	11.9
1942	151.6	50.9	0.9	51.8	33.6	34.2
1943	183.7	83.2	0.9	84.1	45.3	45.8
1944	201.8	90.9	1.3	92.2	45.0	45.7
1945	202.8	78.8	4.0	82.8	38.8	40.8
1946	198.9	24.1	9.5	33.6	12.1	16.9
1947	218.4	14.5	15.4	29.9	6.7	13.7
1948	241.7	11.2	12.4	23.6	4.6	9.8
1949	236.8	12.8	12.2	25.0	5.4	10.6
1950 est.	257.0	15.9	12.0	27.9	6.2	10.9
1951 est.	279.4	40.1	15.9	56.0	14.4	20.0
1952 est.	293.3	46.9	15.0	61.9	16.0	21.1
1953 est.	299.2	54.3	16.2	70.5	18.1	23.6

*Taken from Table A.

THE RISE OF INDIRECT WAR OUTLAYS in the postwar period to a point where five per cent or more of total output is siphoned off by the government programs included under this concept is one of the basic characteristics of the Permanent War Economy. For American imperialism this represents an indefinite and apparently permanent burden. As the table shows, in the years 1947-1950 inclusive, indirect war outlays were virtually as important as direct war outlays (with the former totaling $52 billion for the four-year period and the latter $54.4 billion. As a result, total war outlays even at their postwar nadir in 1948 amounted to $23.6 billion and took about 10 per cent of total output.

Naturally, the projected rise in indirect war outlays is dwarfed by comparison with the anticipated increase in direct war outlays. In fact, it is the precipitate growth in direct war outlays that imposes such a careful screening of, and relative curtailment in, indirect war outlays, for there is a limit to the economic strength of American imperialism.

Total war outlays, as shown in column (4), and their ratio to total output, as shown in column (6) of the above table, become the key instruments of analysis. It is only when these figures are examined that the true character of the Permanent War Economy emerges. Enormous production and enormous waste go hand-in-hand. They are both cause and effect of the huge volume of capital accumulation described in the previous article. We showed that total private gross capital formation averaged $39 billion annually in the five postwar years from 1946 to 1950 inclusive. During the same period, total war outlays averaged $28 billion a year. Imagine what would have happened to capital accumulation and to production if war outlays had returned to the negligible level of 1939 or before! In one sentence, the prophets of postwar depression would have been correct. By the same token, because of the inherent nature of capitalist production, total output could not be entirely devoted to civilian purposes without rapidly glutting the market and ushering in the previously typical capitalist crisis.

A corollary and yet basic feature of the Permanent War Economy is both the size and nature of state intervention in the economy, as revealed by the magnitude of total war outlays. Federal budgets of $40 billion and more become a permanent feature of the new stage of capitalism, with war outlays, direct and indirect, taking the bulk of Federal expenditures. This role of the "balancing" expenditures by the state was anticipated by Oakes, and we shall return to it in a subsequent article.

The peaks and valleys in the proportion of total output devoted to paying for wars, past, present and future, are not quite so extreme in variation once indirect war outlays have been added to direct war outlays. Nevertheless, the changes are rapid and qualitative in nature, which is another characteristic of the Permanent War Economy stage of capitalism. The figures suggest that about 10 per cent of total output must be spent in the form of war outlays before the latter become significant in their impact. This is quite reminiscent of the 10 per cent export level that characterized American imperialism prior to 1929. Its significance is comparable and for essentially the same reason. In those former days, without exporting 10 per cent of its output, the profitability of the remaining 90 per cent of the output of American capitalism that went to the domestic market would have been jeopardized. Similarly, today, without 10 per cent of its output going to war outlays, the profitability of civilian output would be endangered. We shall likewise elaborate on this point at another time.

What is most important for the development of the class struggle is what happens as the percentage of total war outlays to total output declines from 45 per cent to 10 per cent and then rises again to 20 per cent and more. Let us not forget that the ratio of war outlays to total output has become the prime mover of the economy! As the ratio rises above 10 per cent, production controls become necessary. The capitalist market loses its effectiveness as an allocator of resources. At or about the 20 per cent level, judging from past experience, the inflationary and class pressures become intolerable and distribution controls (rationing and price control) have to be instituted. At the 30 per cent level or thereabouts, large-scale war has already broken out and manpower controls are invoked to the extent the bourgeoisie considers feasible. At the 40 per cent level or above, total war has engulfed society and precious little remains of the normal functioning of capitalism.

Before considering the practical consequences of the Permanent War Economy, it is helpful to examine its theoretical foundations.

Under the heading "The Problem of Unpaid Labor," Oakes analyzed the basic contradiction of capitalist society and showed why the " 'balancing' expenditures on the part of government must take the form of war outlays rather than public works." This, in essence, provides the theoretical foundation of the Permanent War Economy, and we summarize what he wrote on this subject. "The root of all economic difficulties in a class society," states Oakes, "lies in the fact that the ruling class appropriates (in accordance with the particular laws of motion of the given society) a portion of the labor expended by the working class or classes in the form of unpaid labor. The expropriation of this surplus labor presents its own set of problems; generally, however, they do not become crucial for the ruling class until the point is reached where it is necessary to pile up accumulations of unpaid labor. When these accumulations in turn beget new accumulations, then the stage of 'primitive accumulation' . . . ceases and the stability of the society is threatened."

In other words, it is the accumulation of capital that at bottom endangers the rule of the capitalists. Oakes continues: "The ruling class is impaled on the horns of a most serious dilemma: to allow these growing and mature accumulations to enter into economic circulation means to undermine the very foundations of existing society (in modern terms, depression); to reduce or eliminate these expanding accumulations of unpaid labor requires the ruling class or sections of it to commit *hara-kiri* (in modern terms, the capitalist must cease being a capitalist or enter into bankruptcy). The latter solution is like asking capitalists to accept a 3 per cent rate of profit, because if they make 6 or 10 per cent they . . . destroy the economic equilibrium. This is too perturbing a prospect; consequently, society as a whole must suffer the fate of economic disequilibrium *unless the ruling class can bring its State to intervene in such a manner as to resolve this basic dilemma.*" (Italics in original.)

Oakes then discusses the necessity for state intervention to immobilize *excess* accumulations of unpaid labor and how this problem was solved in Ancient Egypt by pyramid-building and in feudal times by the building of elaborate monasteries and shrines. "Capitalist society," he points out, "has had its own pyramids. These ostentatious expenditures, however, have failed to keep pace with the accumulation of capital. In recent times, the best examples have been the public works program of the New Deal and the road building program of Nazi Germany. Both have been accomplished through what is termed 'deficit financing.' That is, the state has borrowed capital (accumulated surplus labor for which there is no opportunity for profitable private investment) and consumed it by employ-ing a portion of the unemployed millions, thus achieving a rough but temporarily workable equilibrium.

"While the Roosevelt and Hitler prewar 'recovery' programs had much in common, there is an important difference. The latter was clearly a military program. . . . In the United States, only a minor portion of the W. P. A. and P. W. A. programs possessed potential military usefulness. Consequently, as such expenditures increased, the opposition of the capitalist class rose. . . . The more money the state spent, the more these expenditures circumscribed and limited the opportunity for profitable private investment. The New Deal was dead before the war; the war merely resuscitated its political expression and was, in reality, an historical necessity.

"War expenditures accomplish the same purpose as public works, but in a manner that is decidedly more effective and more acceptable (from the capitalist point of view). In this, capitalism is again borrowing from the techniques employed by the more static class societies of slavery and feudalism. War outlays, in fact, have become the modern substitute for pyramids. They do not compete with private industry and they easily permit the employment of all those whom it is considered necessary to employ. True, this type of consumption (waste) of surplus labor brings with it a series of difficult political and economic problems. These, however, appear to be solvable; in any case, they can be *postponed.*"

Thus, the continued preservation of the capitalist mode of production, a system that has long outlived its historical usefulness, demands ever-increasing state intervention which must take the form of the Permanent War Economy. We need not concern ourselves with the many rationalizations whereby increasing war outlays are justified and accepted socially by all classes, although it is worth noting that it is the propaganda of the bourgeoisie that penetrates all social layers and it is the bourgeoisie which decides what proportion war outlays shall be of total output. The Permanent War Economy, however, is a form of capitalism. The process of converting unpaid or surplus labor into surplus value, of which profits are but one form, still continues. Above all, capital is still accumulated and, as previously, it is the size, composition and rate of capital accumulation that provides the basic laws of motion of capitalism.

These laws, which were thoroughly analyzed by Marx, have been altered by the development of the Permanent War Economy, some quantitatively and some qualitatively. As Oakes puts it. "The Marxian general law of capitalist accumulation may, for convenience, be expressed as two laws; namely, the inevitable tendencies toward the polarization of classes and the increase in unemployment. Today, however, this analysis no longer holds good without certain modifications." We do not entirely share Oakes' conclusion concerning the slowing up of the rate of class polarization, but there is little doubt that he was correct in forecasting the relative elimination of unemployment.

"THE GREATER THE SOCIAL WEALTH, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labor," said Marx in "Capital" (Kerr edition, Volume I, p. 707), "the greater is the industrial reserve-army. The same causes which develop the expansive power of capital, develop also the labor-power at its disposal. The relative mass of the industrial reserve-army increases therefore with the potential energy of wealth. But the greater this reserve-army in proportion to the active labor-army, the greater is the mass of a consolidated surplus-population, whose misery is in inverse ratio to its torment of labor. The more extensive, finally, the lazarus-layers of the working class, and the industrial reserve-army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.*"

Without entering into all its ramifications, the decisive point for Marx was that as capitalism evolved, capital constantly accumulated and brought with it an increase in unemployment. Naturally, Marx was well aware that his statement had to be modified in many ways, especially in relation to the fluctuations of the business cycle. Yet, prior to the Permanent War Economy, this fundamental of Marxism was perhaps the most impressive characteristic of capitalism. That it no longer holds true may be seen by referring to the official figures on unemployment. (Table C)

TABLE C: UNEMPLOYMENT, 1939-1950
(In Thousands)

Year	*Annual Average Unemployment*
1939	9,480
1940	8,120
1941	5,560
1942	2,660
1943	1,070
1944	670
1945	1,040
1946	2,270
1947	2,142
1948	2,064
1949	3,395
1950*	3,100

*Estimated on the basis of data for the first nine months of the year.

The data on unemployment are compiled by the Bureau of the Census and include those fourteen years of age and over who are either looking for work or are on public emergency work projects. This official measure of unemployment refers to the non-institutional population and is based on a sample of 25,000 households in 68 areas. As such, it is admittedly subject to a wide margin of error, with the maximum difference between actual and estimated unemployment calculated at 18 per cent. While the series may not properly evaluate the level of unemployment, and actually conceals the millions of changes that occur monthly from the status of employed to unemployed or vice versa, as well as the changes into and out of the labor force, there is little doubt that it reflects the trend in unemployment.

In 1939 there were on the average almost 9,500,000 unemployed. This is typical of the decade of the 1930's, for the peak year of unemployment was in 1933 when the average was 12,830,000. As the ratio of war outlays to total output increased, unemployment declined until in 1944 it fell to an average of 670,000. This is even below the so-called minimum "frictional" level of unemployment, representing those who are merely in process of changing from one job to another, which is usually placed at one million persons at a minimum. Then, as the ratio of war outlays to total output began to decline, unemployment increased until in 1949 it averaged almost 3,400,000. For the first half of 1950, unemployment averaged almost 3,900,000. With hostilities beginning in Korea came an increase in war outlays. Immediately, unemployment began to drop and by September was about two million. We may expect that in 1951 unemployment will average about one and one-half million and in 1952 and 1953, for all practical purposes, unemployment will be non-existent.

Thus, a 20 per cent ratio of war outlays to total output will now have the same effect on unemployment as a 40 per cent ratio had during the war. The reason is, of course, that the present increase in war outlays starts with the economy operating virtually at capacity. In other words, there is a close relationship between a high level of production and low unemployment, but the relationship is even closer in the case of the ratio of war outlays to total output, for war expenditures are the prime mover in bringing about capacity or near capacity production. Consider that at the peak of its pre-Permanent War Economy prosperity, in 1929, there was an average of 1,550,000 unemployed and one can readily see the tremendous impact of the Permanent War Economy on American capitalism!

The negligible character of unemployment under the Permanent War Economy, which is vital to the maintenance of a stable and safe economic equilibrium for the bourgeoisie, becomes even more apparent when we compare the level of unemployment with the size of the total labor force, as is done in Table D.

The volume of unemployment has particular relevance when related to the total labor force, for with the growth in population there are on the average several hundred thousand persons each year who seek employment as new entrants into the labor force. According to Marx, the greater the size of the proletariat, the greater the industrial reserve army. While pressures still operate in this direction, they are overcome (even if our figures were restricted to factory employment) by the ability of the Permanent War Economy to find "employment" for millions in the armed forces and in munitions industries. For example, in 1944 about 22,400,000 persons on the average were employed as workers in munitions industries, civilian employees in Federal war agencies and members of the armed forces. More than one-third of the total labor force at the peak of the war was thus completely unproductive in providing consumer goods and services.

The 32 per cent rise in civilian employment in a little more than a decade of the Permanent War Economy furnishes dramatic proof of the impact of war outlays on the productive capacity of the economy. The size of the armed forces (derived by subtracting the total civilian labor force from the total labor force, including the armed forces) naturally follows very closely the movement of war outlays and is further evidence of the highly volatile nature of the Permanent War Economy. Some question may be raised concerning the propriety of measuring the "unemployment ratio" in terms of the total labor force, including the armed forces, rather than by comparison with the total civilian labor force. The resulting pattern, however, would not be fundamentally different and the relatively large size of the armed forces is one of the basic characteristics of the Permanent War Economy.

More than one person in every six was unemployed in 1939 against one in every four in 1933. The limited and precarious character of the recovery under the New Deal is thus apparent. The unemployment ratio then declined from 17.1 per cent in 1939 to the fantastically low figure of one per cent in 1944. This compares with an unemployment ratio of 3.1 per cent in 1929. Even with the curtailment of war outlays following 1944, the unemployment ratio does not become much greater than in 1929. We can now expect a further sharp decline in the unemployment ratio to 2.5 per cent in 1951, 1.5 per cent in 1952 and less than one per cent in 1953. No wonder Washington is reported to be considering the drafting of women if and when the plunge is made to conscript all manpower!

THE BASIC CHARACTERISTICS of the Permanent War Economy are the permanence of the sizable level of war outlays, which have become a legitimate expression of growing state intervention in the economy, and the high rates of capital accumulation and production accompanied by insignificant levels of unemployment. If there were no other consequences, aside from the danger of mortal defeat in battle, it might be assumed that the capitalist system had acquired a new lease on life. While it is true, as Lenin was fond of stressing, that "there is no absolutely hopeless situation for the bourgeoisie," thereby implying the necessity of the conscious intervention of the proletariat in leading mankind on the road toward the socialist emancipation of society, the development of the Permanent War Economy does give rise to new problems, and aggravates old problems, that continually threaten to undermine the foundations of capitalism. We shall comment briefly on the more important differences from "normal" capitalist operation and, in subsequent articles, develop at some length those aspects of the Permanent War Economy that are of particular significance to the working class.

1. *Standards of living decline.* To quote Oakes: "If the Permanent War Economy succeeds in stabilizing the economy at a high level, unemployment will be eliminated, but only through employment in lines that are economically unproductive. *Thus capitalist accumulation instead of bringing about an increase in unemployment, will have as its major consequence a decline in the standard of living.* (Italics in original.) . . . At first, of course, there may be a rise in the average standard of living if [there is an increase in real national income] and if, simultaneously, there is a sharp reduction in total military outlays [from the wartime peak]. . . . Within a relatively short period, however, assuming that the economy is stabilized at the desired level with a minimum of unproductive governmental expenditures, the maintenance of economic equilibrium will require a steadily rising curve of military outlays. The decline in the average standard of living of the workers, at first relative, will then become absolute—particularly on a world scale as all nations adapt their internal economies to conform with the requirements of the new order based on an international Permanent War Economy. Naturally, the decline will not be a descending straight line; it will have its ups and downs, but the long-term trend will definitely be downward."

It follows, of course, that with the economy operating at capacity an increase in war output requires a corresponding decrease in civilian output. **Therefore, the average standard of living must decline, but the burden of declining standards of living will be disproportionately heavy on the**

TABLE D: RATIO OF UNEMPLOYMENT TO TOTAL LABOR FORCE, 1939-1950
(In Thousands)

Year	*Civilian Employment*	*Total Civilian Labor Force**	*Total Labor Force, incl. Armed Forces*	*Ratio of Unemployment to Total Labor Force, incl. Armed Forces*
1939	45,750	55,230	55,600	17.1%
1940	47,520	55,640	56,030	14.5
1941	50,350	55,910	57,380	9.7
1942	53,750	56,410	60,230	4.4
1943	54,470	55,540	64,410	1.7
1944	53,960	54,630	65,890	1.0
1945	52,820	53,860	65,140	1.6
1946	55,250	57,520	60,820	3.7
1947	58,027	60,168	61,608	3.5
1948	59,378	61,442	62,748	3.3
1949	58,710	62,105	63,571	5.3
1950†	60,300	63,400	64,900	4.8

*Includes unemployment as shown in the previous table.
†Estimated on the basis of data for the first nine months of the year.

low-income groups, especially the working class.

2. *State intervention increases.* The market mechanism cannot be relied upon to allocate resources in accordance with the new, dual end-purposes of economic activity. Accordingly, to meet the requirements of the war sector *and ultimately of the civilian sector,* more and more state controls are imposed upon the body economic. There is a permanent growth in the state bureaucracy, with the state, in effect, guaranteeing the profits of the bourgeoisie. Both profits and production remain at very high levels, as does employment. In this connection Oakes made his most serious mistake, as he apparently did not fully take into account the implications of his own theory and therefore understated future levels of both production and employment.

3. *Capital accumulates rapidly.* Not only do private capital accumulations remain at extremely high levels, but state capital accumulations increase with the growth in the ratio of war outlays to total output. The large demand for capital rapidly exhausts the supplies of idle capital and an overall shortage of capital develops. Accordingly, normal pressures to increase the rate of surplus value are reinforced by the insatiable appetite of the state to dispose of the fruits of past and present labor. Through increased taxation and related fiscal policies, the state consumes a relatively larger portion of total output. The natural tendency toward a declining standard of living is therefore accelerated.

4. *Bonapartist tendencies develop.* The proletariat increases in size both absolutely and relatively to the growth in the working population. The greater economic strength of the American proletariat is in sharp contrast to the weakness of its politcial strength, and the danger of the class struggle erupting and seriously interfering with the ability of the state to carry out all the individual programs that add up to the Permanent War Economy is ever present. At the same time, the bourgeoisie increasingly penetrates the organs of the state. On both counts, it therefore becomes necessary for the state to give the appearance of being "above classes" and to "freeze" the class struggle in the role of "impartial" umpire. The growing executive power of the state and the interlocking directorates between big business and the higher military echelons will ultimately spell the doom of bourgeois democracy.

5. *Military-economic imperialism grows.* Increasingly, the state must finance and guarantee international trade and investments. Exports of private finance capital, hitherto the traditional mode of operation of "democratic" imperialism, steadily diminish in importance despite all efforts to revive them. The American state enters permanently into the foreign economic field through various types of "relief and rehabilitation" programs. These programs, in turn, are subordinated to military aid as American imperialism seeks to overcome its relative deficiency in manpower by seeking allies in the struggle to contain and eventually to eliminate Stalinist imperialism. The nationalist revolutions of colonial areas, especially in Asia, present virtually an insoluble problem for American imperialism and are compelled by the desire to survive to move in the direction of third campism.

6. *Inflation is irresistible.* The greater the percentage of war outlays to total output, the greater the inflationary pressure on the economy. This general law of the Permanent War Economy operates at all stages, but becomes more apparent when the economy is running at full capacity. Anti-inflationary techniques cannot halt the inflation, which arises from the relative excess of consumer spending power in comparison with the available supply of consumer goods and services, but can only slow it down and modify its class impact. The major battles of the class struggle, in fact, will arise over the question of who shall pay for the increase in war outlays and which class shall bear the major burden of inflation.

The Permanent War Economy, in brief, offers no hope of solving the basic problems of humanity. It represents a further stage on the road to barbarism and is the inevitable price the world proletariat must pay for its failure to put an end to both capitalism and Stalinism. It does, however, exist and only fools and demagogues will base their politics on the assumption that nothing has changed. We must find ways and means of coping with the problems of living under the Permanent War Economy or resign ourselves to defending the slaves of totalitarianism and ultimately to the atomization of most of organized society.

2. Declining Standards of Living

The general law of accumulation of capital under the Permanent War Economy [see January-February issue, "Basic Characteristics of the Permanent War Economy"] is that an increase in capital, instead of causing an increase in unemployment, is accompanied by relatively full employment and declining standards of living. This new and fundamental law of motion increasingly governs all human and class relations under this latest stage in the decline of capitalist society. Because of its tremendous significance we shall attempt to develop the key quantitative measures, however rough and approximate, so as to permit analysis of the various factors underlying the decline in living standards.

Having already obtained total war outlays, both direct and indirect, and the net value of current production, in order to measure the relationship between war outlays and total output, our starting point in deriving a measure of the average standard of living is clearly to subtract total war outlays from net national product. The difference between the two series, by definition, represents the net output of civilian goods and services. If, from this result, we then substract net private (civilian) capital formation—a necessary step since net private capital investment is included in total production, and capital in any of its forms does not directly satisfy human wants—we then have a measure of total civilian output of consumer goods and services as produced by both private and government sources.

It is only from this portion of total output, equivalent conceptually to the summation of personal consumption expenditures and government nonwar purchases, that the ingredients comprising the standard of living can come. For, aside from conceptual and statistical limitations inherent in many of the components of gross national product, especially as calculated by the Department of Commerce, the total output of consumer goods and services (shown in column five of Table I) theoretically expresses the market value of all commodities consumed by consumers. Unless food, clothing, housing, consumer durables, etc., etc. are purchased by consumers and, it must be assumed, thereby consumed, production does not currently and directly satisfy human wants and is therefore outside our definition of standard of living.

In other words, we make a sharp distinction between personal wealth and standard of living. The former indicates possession or ownership that may ultimately be converted into consumption of want-satisfying commodities. But savings, factories, stores, real estate, and other forms of capital or property, including money, cannot be eaten or worn or utilized to satisfy human wants unless they are first transformed from exchange values into use values or employed to produce use values capable of directly entering into the process of human consumption. It is true that the greater one's personal wealth, the higher his standard of living. This, however, does not follow because personal wealth is directly consumed by its owner, except in the rare case where a capitalist lives by using up his principal, but rather as a result of high personal incomes which simultaneously permit' high consumption and accumulation of personal wealth or claims upon capital. The true gauge, therefore, of relative standards of living is the amount of commodities and services, both material and intangible, economic and cultural, actually consumed.

Table I portrays civilian output of consumer goods and services from 1939 to 1953, the first step in computing standards of living under the Permanent War Economy.

Net private capital formation was obtained by taking gross investment, as reported by the Department of Commerce, and substracting from it Commerce's figures for capital consumption allowances. The projections were based on a study of the individual components and are consistent, both as to understatement of price inflation and the magnitude of war outlays and their impact on capital accumulation, with the methods used to forecast war outlays and total output. If anything, our forecast minimizes the quantity of private capital that may be expected to be accumulated during 1951-1953, thus maximizing the volume of consumer goods and services that will be available for civilian consumption. This was deliberately done in order to present the trend in the average standard of living in as favorable a light as possible.

THAT CIVILIAN STANDARDS HAVE lagged well behind total output can readily be seen by comparing columns five and one in Table I. Over the entire period, from 1939 to 1953, the net value of production will have increased 3.6 times in current dollars, while the portion available for civilian consumption will have risen less than 2.8 times. It is axiomatic that production for war purposes cannot contribute to civilian standards of living. During the first fifteen years of the Permanent War Economy a total of almost $659 billion will have been spent on direct and indirect war outlays, an average of $44 billion each year. Even if full allowance is made for the production of food, clothing and other consumer goods for the armed forces, and granting as much validity as possible to the socially necessary character of certain indirect war outlays, it is still impossible to escape the conclusion that approximately three years total production has been completely wasted. Had it been possible for a rational economic system to have prevailed, producing and distributing an equivalent amount of commodities to consumers, the national debt of $257 billion could be completely retired and a dividend of $10,000 could be allotted to each family!

It may be wondered why we have not confined our measure of the average standard of living to personal consumption expenditures expressed in constant dollars on a per capita basis. Such an approach, usually without considering the growth in population, is generally adopted by those who seek to depict the "benefits of a free enterprise economy." This could provide a first approximation provided that proper allowance was made for changes in the price level, but it would entirely omit from consideration the contribution made by the various levels of government to the average standard of living. Government nonwar purchases of goods and services, especially expenditures by state and local governments for education, utilities, transportation, and similar services, including the net postal deficit, are supported by taxes (except when government operates at a deficit) and presumably benefit more or less equally the entire population. While there may always be room for improvement, it must be assumed that such expenditures are an integral part of the average individual's total want satisfactions and therefore of his standard of living. As a matter of fact, to the extent that such government services are provided free of charge and therefore excluded from personal consumption expenditures or simultaneously included in capital formation as part of new public construction activity (school buildings, public hospital buildings, highways, etc.), the contribution of government to the average standard of living is understated.

Nevertheless, we could have added government nonwar purchases to personal consumption expenditures and theoretically obtained an identical result for civilian output of consumer goods and services. There are two major reasons why this procedure was not followed, aside from the minor inconvenience that would be caused by the failure of Commerce to publish the breakdown between Federal war and nonwar purchases since 1946: (1) our estimate of total war outlays is higher than that of Commerce chiefly, as explained in the previous article, because of our inclusion of the concept of "indirect" war outlays; and (2) while, on balance, the official figures for total output, as represented by the national product series, appear to be reasonable, we take exception to the inclusion and exclusion of certain items and to the classification of owner-occupied residential construction as a capital expenditure.

Thus, for example, we see no justification for the inclusion of imputed rent (of owner-occupied houses), imputed interest, or payments in kind in a national product series that is attempting to estimate the market value of current production. One might just as logically include the imputed value of housewives' services. This type of inclusion tends to overstate both total output and consumer outlay. On the other hand, exclusion of virtually all the expenditures of the Veterans Administration, net government interest payments and government subsidies

Table I

CIVILIAN OUTPUT OF CONSUMER GOODS AND SERVICES, 1939-1953

(Billions of Current Dollars)

Year	*Net National Product (1)*	*Total War Outlays (2)*	*Civilian Output (Column One Minus Column Two) (3)*	*Net Private Capital Formation (4)*	*Civilian Output of Consumer Goods and Services (Column Three Minus Column Four) (5)*
1939	$83.2	$2.0	$81.2	$2.7	$78.5
1940	93.0	3.6	89.4	7.0	82.4
1941	117.1	13.9	103.2	10.1	93.1
1942	151.6	51.8	99.8	0.7	99.1
1943	183.7	84.1	99.6	—7.2	106.8
1944	201.8	92.2	109.6	—6.3	115.9
1945	202.8	82.8	120.0	—3.1	123.1
1946	198.9	33.6	165.3	21.1	144.2
1947	218.4	29.9	188.5	24.2	164.3
1948	241.7	23.6	218.1	27.7	190.4
1949	236.8	25.0	211.8	14.7	197.1
1950*	257.0	27.9	229.1	23.0	206.1
1951*	279.4	56.0	223.4	19.1	204.3
1952*	293.3	61.9	231.4	14.1	217.3
1953*	299.2	70.5	228.7	11.6	217.1

*Estmated, with 1950 data based on first half actuals. Projections of net national product and total war outlays were explained in the previous article.

tends to understate total output (to the extent that such activities, like any other government activity, are supported by taxes) and total war outlays. The exclusions, in general, ought to be reflected in total output but not in consumer output, as for the most part they belong to the war sector. To treat residential construction (except when it is income-producing property) as part of capital formation is to identify wealth with capital and to betray a lack of understanding of the nature and functioning of capital. One might just as well include any other consumer durable possessed of a relatively long lifetime, such as personal passenger cars, radios, television sets, furniture, etc. Owner-occupied residential construction, therefore, ought to be shifted from gross private domestic investment to personal consumption expenditures.

In short, we feel that the official figures for personal consumption expenditures are overstated by approximately the same amount as total war outlays are understated. This is particularly true for 1946, where our biggest difference of more than $12 billion occurs. Consequently, the method used to obtain civilian output of consumer goods and services maintains a proper aggregate for total production while at the same time assuring a more realistic apportionment between the war and civilian sectors of the economy. It also enjoys the additional merit of facilitating the projection of civilian output of consumer goods and services. The residual method employed does, it is true, understate the level of government nonwar purchases, particularly since 1945, but we prefer to maintain the official series for personal consumption expenditures rather than to make all the adjustments that would be required to conform with our criticisms. There is no difference in the average standard of living and the differences in per capita standards of living by classes would be negligible.

It may be helpful at this point to present the figures for personal consumption expenditures, both because they are by far the largest component in the formation of the average standard of living and because we subsequently base our class analysis of trends in living standards on a class breakdown of the official data for personal consumption expenditures. What consumers are officially reported to have spent in current dollars from 1939-1949, together with our projections for 1950-1953, is shown in Table II, which also expresses consumer outlay in constant dollars by using the BLS Consumers' Price Index as deflator.

It will be noted that the trend in personal consumption expenditures is not too dissimilar from that shown by civilian output of consumer goods and services, with the noteworthy exception of 1945-1947. As a matter of over-all comparison, during the entire period from 1939 to 1953, personal consumption expenditures will increase almost three times on a current dollar basis, whereas our series for civilian output of consumer goods and services rises 2.8 times, hardly a significant difference.

Far more important in evaluating what has happened to the average standard of living is the allowance made for the increase in consumer prices. The Chamber of Commerce of the United States, for example, in a recent pamphlet entitled "Policies and Controls in a War-Burdened Economy," obviously uses the BLS Consumers' Price Index as its measure of changes in prices paid by consumers and thus is able to conclude that "real consumer purchasing power also increased (during the war)." While there was a slight increase during the war, to indicate that there was a 41 per cent rise in real consumer purchasing power or the average standard of living between 1939 and 1945 is highly misleading, just as much as to indicate that the average consumer in 1950 was more than 65 per cent better off than in 1939.

The Consumers' Price Index for Moderate Income Families in Large Cities of the Bureau of Labor Statistics, despite its widespread use by trade unions in collective bargaining contracts as a measure of the rise in the cost of living to which wage rates are linked, is not an accurate indicator of changes in the average cost of living, especially of factory workers. It may record fairly accurately typical consumer price trends in a period when government controls and inflationary shortages are non-existent, but in the epoch of the Permanent War Economy it is extremely insensitive to quality depreciation, evasions of controls, changes in controls, and the disappearance or relative disappearance of basic consumer commodities from the market. Moreover, it fails utterly to take into account changes in consumer buying habits and consumption patterns. Since 1941 it has markedly understated the rise in the average cost of living, with the deviations from reality becoming cumulative. Accordingly, any attempt to assess changes in living standards by the use of the Consumers' Price Index necessarily lacks validity.

It is obvious, however, that analysis of standards of living cannot be intelligently undertaken on the basis of current dollars and that we must discuss in terms of dollars possessing constant purchasing power. We therefore need a price index that reflects as accurately as possible the changes in average prices paid by average consumers. Unfortunately, no such index exists and we are reluctantly compelled to devise one arbitrarily. This has been done by calculating the arithmetic average between the Consumers' Price Index and the BLS Wholesale Price Index, on the theory that the former represents the minimum change in consumer price levels and the latter the maximum possible change due to the well-known greater flexibility of wholesale prices com-

Table II
PERSONAL CONSUMPTION EXPENDITURES, 1939-1953
(Current and Constant Dollar Figures in Billions)

Year	*Personal Consumption Expenditures (1)*	*BLS Consumers' Price Index (2)*	*BLS Cons. Price Index (1939=100) (3)*	*Personal Consumption Expenditures in 1939 Dollars (4)*	*Index of Personal Consumption Expenditures in Constant Dollars (5)*
1939	$67.5	99.4	100.0	$67.5	100.0
1940	72.1	100.2	100.8	71.5	105.9
1941	82.3	105.2	105.8	77.8	115.2
1942	91.2	116.5	117.2	77.8	115.2
1943	102.2	123.6	124.3	82.2	121.8
1944	111.6	125.5	126.3	88.4	130.9
1945	123.1	128.4	129.2	95.2	141.0
1946	146.9	139.3	140.1	104.9	155.4
1947	165.6	159.2	160.2	103.4	153.1
1948	177.4	171.2	172.2	103.0	152.5
1949	178.8	169.1	170.1	105.1	155.6
1950*	192.5	171.1	172.1	111.9	165.7
1951*	189.3	177.4	178.5	106.1	157.1
1952*	201.3	180.1	181.2	111.1	164.5
1953*	200.1	180.3	181.4	110.3	163.3

*Estimated with 1950 based on first nine months actuals. A report of the Department of Commerce, published in *The New York Times* of December 31, 1950 indicates that personal consumption expenditures for 1950 are estimated at "about $190 billion." The projections are consistent with the methods used to forecast output and make only partial allowance for rising prices in 1951 and almost none in 1952 and 1953.

Table III
INDEX OF CONSUMPTION OUTPUT, 1939-1953
(Dollar Figures in Billions)

Year	Output of Consumer Goods and Services (1)*	BLS Wholesale Price Index (1939=100) (2)†	Average Price Index (1939=100) (3)‡	Consumption Output in 1939 Dollars (Col. One÷Col. 3) (4)	Index of Consumption Output in 1939 Dollars (5)
1939	$78.5	100.0	100.0	$78.5	100.0
1940	82.4	101.9	101.4	81.3	103.6
1941	93.1	113.2	109.5	85.0	108.3
1942	99.1	128.1	122.7	80.8	102.9
1943	106.8	133.7	129.0	82.8	105.5
1944	115.9	134.9	130.6	88.7	113.0
1945	123.1	137.2	133.2	92.4	117.7
1946	144.2	157.1	148.6	97.0	123.6
1947	164.3	197.3	178.8	91.9	117.1
1948	190.4	213.9	193.1	98.6	125.6
1949	197.1	201.0	185.6	106.2	135.3
1950	206.1	215.3	193.7	106.4	135.6
1951	204.3	223.5	201.0	101.6	129.4
1952	217.3	226.8	204.0	106.5	135.7
1953	217.1	227.1	204.3	106.3	135.4

*Taken from column five of Table I.
†Estimates for 1950 and subsequent years are calculated in a manner identical with the projection of the Consumers' Price Index.
‡Average of column two above and column three of Table II.

pared with retail prices. The arbitrary part of the approach consists in giving equal weight to both indexes, whereas it may well be that one should weigh more heavily than the other in trying to achieve our objective. We are aware of no evidence, however, that would warrant unequal weighting.*

It is necessary to emphasize that the selection of a price index far outweighs any other factor in analyzing living standards. If, for example, we had applied the Consumers' Price Index to our series on civilian output of consumer goods and services, the results would not differ too greatly from the picture shown in Table II. For 1950, the growth in the consumption sector of the economy would be 52.6 per cent over 1939 instead of 65.7 per cent. Our thesis that the workers have suffered a decline in their living standards as a result of the Permanent War Economy would be greatly weakened, even though a relative decline compared with the growth in total output is apparent.

We now proceed to the second basic step in our analysis, which is to develop an index of the output of the consumption sector of the economy, by which term we distinguish from the war sector and the capital sector. The results are shown in Table III.

While the wholesale price index evidences the same difficulty in surmounting official failure to recognize the prevalence of black markets during price control as does the Consumers' Price Index, it is a much more comprehensive and more sensitive index. Our derived average price index, except for the later stages of the war, is probably as satisfactory a measure of price changes in the consumption sector as can be obtained. A 35 per cent rise in the output of the consumption sector from 1939 to 1950 is certainly more plausible than a 65 per cent rise. Moreover, our series now shows a decline in consumption output from 1941 to 1942-43, as well as a decline from 1946 to 1947, both movements conforming far more closely to common experience than the highly misleading series represented by personal consumption expenditures deflated by the Consumers' Price Index.

It is thus apparent that the rise in output of consumer goods and services, from both private and government sources, rose very modestly indeed during the war. With the exception of 1947, which was a year of unbridled inflation following the abandonment of price control in 1946, there was then a further steady growth until the outbreak of the Korean war. Now, we can expect a noticeable decline in 1951 followed by a leveling off at about the 1950 rates in 1952-53—this, on the basic assumption stipulated in the projection of war outlays that the armed forces of the United States will not be engaged in any major conflict prior to 1954. It will be noted that the movement of real consumption output (the basis of all living standards) follows the trends in the ratio of war outlays to total output—but in reverse. This is only natural inasmuch as war output must take place at the expense of civilian output unless there is a corresponding increase in total output, which is never possible and which at the present historic juncture is severely limited in its potential by a whole host of factors.

The relative decline in standards of living is beyond dispute, regardless of the figures chosen or statistical methods used. Even if one were to deflate total output by the wholesale price index, on the ground that price inflation in the war and capital sectors of the economy is more severe under the Permanent War Economy than in the consumption sector, the contrast is obvious and dramatic in its implications. Consider the following brief tabulation, which deflates total output as reflected by net national product (column one of Table I) by the BLS wholesale price index (column two of Table III) in comparison wtih our index of consumption output in 1939 dollars for the key historical years in our fifteen-year period:

RELATIVE DECLINE IN CONSUMPTION OUTPUT COMPARED WITH TOTAL OUTPUT
(In Index Numbers)

	Total Output	Consumption Output
1939	100	100
1945	178	118
1950	144	136
1953	158	135

From 1939 to 1945, or during World War II, total real output in the United States rose 78 per cent, while the output of the consumption sector increased but 18 per cent. Had such a phenomenal increase in production been possible without the stimulus provided by the war or, in other words, had the rise in consumption kept pace with the upsurge in production, there would have been a further 50 per cent increase in the output of consumer goods and services from both private and government sources! In spite of the idle resources that existed at the outbreak of the war, the expansion of the war sector necessitated an actual decline in certain types of consumer production such as automobiles, radios, refrigerators, most consumer durables, and even some types of clothing and food, not to mention many services, especially those made available by government. Had the war lasted much longer, it is highly probable that the great lag in consumption output compared with total output would have been followed by an absolute decline in the

*Since this was written, the Department of Commerce has announced (The New York Times of January 22, 1951) gross national product figures in 1939 dollars. The implicit price index thus derived was published for selected years and yields the following comparison with our average price index:

	Average Price Index	Commerce Implicit Price Index
	(1939=100)	
1941	110	110
1949	186	180
1950	194	183 (preliminary)

The two indexes apparently correspond quite closely, being identical for 1941 and only three per cent apart in 1949. The Commerce index, however, indicates a price rise of less than two per cent from 1949 to 1950, whereas our index shows an increase of more than four per cent during the same period.

output of consumer goods and services.

History under the Permanent War Economy has so far been very kind to the American capitalist class. The major turns have occurred at just the right time. World War II lasted long enough, but not too long. Sharp class dissensions were thus avoided. In the postwar period from 1945 to 1950, there was a further growth in consumption output of 15 per cent. The rate of growth in the production of consumer goods and services was thus maintained at about 3 per cent per annum. Since, at the same time, there was a decline of 19 per cent in total output, by 1950 output in the consumption sector had almost caught up with total production, the relative lag in growth being only 6 per cent. Maintenance of these trends for another year would have resulted in a reversal of position, with the growth in consumption output exceeding the increase in total production. Under capitalist conditions of production, a first-rate crisis would have developed by the end of 1951, thereby revealing that a 10 per cent ratio of war outlays to total output is inadequate to sustain economic equilibrium at a high level for more than a limited number of years. As we have previously indicated, the outbreak of the Korean war came in the nick of time. The threatened crisis due to relative overproduction of consumer goods was averted and the dominance of the Permanent War Economy guaranteed.

The current increase in the ratio of war outlays to total output will bring to a halt the steadily rising trend in the output of consumer goods and services. While we expect a leveling off to take place until such time as American imperialism is engaged in full-scale war, there will actually be a decline of almost 5 per cent from 1950 to 1951 in the output of consumer goods and services. From 1950 to 1953, a period of mobilization for World War III according to our assumption, we have projected a modest increase of 10 per cent in total real output. If certain bottlenecks to increased production are removed and if war outlays prove to be larger than we have forecast, the increase in total output may be somewhat larger. None of it, however, would go to the consumption sector, so that the relative decline in production for consumer account compared with the increase in total output would be even greater than we have projected. If 1953 be considered representative of a typical year under the Permanent War Economy, with total war outlays taking almost 24 per cent of current production, the relative decline in consumption output compared with total output for the entire period since the advent of the Permanent War Economy is accurately measured by the 35 per cent increase in consumption output compared with the 58 per cent increase in total output. This is merely another way of saying that had the growth in consumption paralleled the rise in total output, which is the minimum performance to be expected from a satisfactory economic system once the basic productive forces are fairly well developed, there would have been a further increase of 17 per cent in the output of consumer goods and services.

Production figures by themselves, although the basis of living standards, cannot accurately portray what has happened to individual standards of living for they ignore any changes that may have occurred in the size of the population. Since there has historically been a steady growth in the American population, for the average individual merely to be as well off as at the beginning of any period of years under analysis the growth in consumption output must at least equal the growth in population. In other words, we cannot intelligently talk about trends in average living standards unless we have first obtained a measure of per capita consumption output. This brings us to the third basic step in our analysis, which consists of deriving population figures representing the average total population for each year from 1939 to 1953 and applying them to the annual series for consumption output. The results, summarized in Table IV, provide per capita consumption output in both current and constant dollars and enable us to see what has happened from 1939 to 1953 in the *average* standard of living.

The growth in the American population has been substantial, far in excess of most predictions, especially since the end of World War II. We calculate an average increase of 2,000,000 annually for the fourteen-year period from mid-1939 to mid-1953, or a total of about 28 million. Merely to support this increase in population in the style to which the average person is accustomed requires an annual increment on the average in the consumption sector of the economy of more than 1.5 per cent, or a total of more than 21 per cent from 1939 to 1953. Thus, by 1953, about two-thirds of the growth in consumption output will have been devoted to satisfying the wants of the net increase in population, assuming that there is no marked variation in the living standards of net additions to the population compared with old members of the population. The entire picture of what has happened to the average American standard of living under the Permanent War Economy is obviously altered to a significant extent by the introduction of the per capita concept in our analysis.

The American standard of living may be the highest in the world, but it is a complete delusion to claim any marked expansion in average living standards since the beginning of the Permanent War Economy in 1939, or for that matter since American capitalism entered the permanent world crisis of capitalism in 1929. *So far as average standards of living are concerned, the vaunted economy of*

Table IV

PER CAPITA AVERAGE STANDARD OF LIVING, 1939-1953

Year	*Consumption Output (Billions of Current Dollars)* (1)*	*Consumption Output (Billions of 1939 Dollars)* (2)*	*Population (Millions)* (3)†	*Per Capita Consumption Output in Current Dollars* (4)	*Per Capita Consumption Output In 1939 Dollars* (5)	*Index of Per Capita Average Real Standard of Living (1939=100)* (6)
1939	$78.5	$78.5	130.9	$600	$600	100.0
1940	82.4	81.3	132.0	624	616	102.7
1941	93.1	85.0	133.2	699	638	106.3
1942	99.1	80.8	134.7	736	600	100.0
1943	106.8	82.8	136.5	782	607	101.2
1944	115.9	88.7	138.1	839	642	107.0
1945	123.1	92.4	139.6	882	662	110.3
1946	144.2	97.0	141.0	1,023	688	114.7
1947	164.3	91.9	143.4	1,146	641	106.8
1948	190.4	98.6	146.1	1,303	675	112.5
1949	197.1	106.2	148.7	1,325	714	119.0
1950	206.1	106.4	151.5	1,360	702	117.0
1951	204.3	101.6	154.0	1,327	660	110.0
1952	217.3	106.5	156.4	1,389	681	113.5
1953	217.1	106.3	158.8	1,367	669	111.5

*From Table III.

†Based on Bureau of the Census data for continental United States, with an attempt made to include all armed forces except that small portion considered to be permanently stationed overseas. Data are as of July 1 or mid-year to represent average population for the year. Projections for 1951-1953 assume maintenance of present rate of growth of about 200,000 per month.

American capitalism has been virtually stagnant for more than two decades. In this fact is reflected all the ills and contradictions of American imperialism. Now, as the Permanent War Economy becomes more thoroughly entrenched, it is good-bye to the New Deal and to the Fair Deal and to all significant attempts to raise average living standards. Is any more dramatic confirmation required of the Marxian thesis that capitalism cannot be reformed into a rational and workable economic system?

Constant reference to the "growth in consumption," as mirrored by the indisputable and very sizable increase in personal consumption expenditures or in our series on consumption output, on the completely acceptable theory that consumer outlay represents actual consumption, is of no avail in appraising trends in the average standard of living. There can be no growth in real consumption or living standards unless the increase in dollar expenditures by consumers and government for consumer goods and services exceeds the loss in the purchasing power of the dollar and the growth in the population. It may be comforting to defenders of capitalism to be able to state that average per capita consumption has exceeded $1,300 since 1948, which is equivalent to almost $5,000 per family, but this is meaningless by itself. Only per capita consumption output in constant dollars, the index of which is shown in column six of Table IV, can be used to discover what has happened to *average* living standards.

THE AVERAGE AMERICAN has experienced a slight improvement in his standard of living since 1939, but the lag behind the increase in total production has been enormous. For the entire period from 1939 to 1953, our analysis indicates only an 11½ per cent betterment in the per capita average real standard of living, or less than one per cent a year. The various ups and downs within this over-all picture are most revealing. From 1939 to 1941, as idle resources were put to work under the stimulus of increasing war outlays, the average consumer experienced a 6 per cent rise in his standard of living. Then, in 1942-1943, as rapidly increasing war expenditures caused an actual curtailment in many lines of civilian production, the average standard of living reverted back to approximately the 1939 level. From 1944 to 1946, as war outlays reached their peak and then declined as the war ended, there was a rapid increase of almost 5 per cent a year in the average standard of living as the economy continued to operate at or near capacity levels. However, from 1946 to 1947 the average American suffered a 7 per cent decline in his standard of living as the increase in prices together with the decline in total output outstripped the reduction in war outlays. There then followed from 1947 to 1949 a rise of more than 11 per cent, bringing the average standard of living in 1949 to 19 per cent above the 1939 level, which was the highwater mark under the Permanent War Economy and will undoubtedly remain so. The slight decline in 1950 will be followed by a substantial decline of more than 6 per cent in 1951 as, once again, an actual curtailment in certain industries producing consumer goods and services will be experienced. A leveling off may then be expected at slightly above 1951 levels which may be expected to last until such time as there is a pronounced change in the ratio of war outlays to total output.

It is recognized that many other factors should be taken into consideration in evaluating trends in living standards, such as changes in the length of the working day and the working week, the intensity of labor, the impact of new methods of satisfying consumer wants, the disappearance of existing methods of satisfying consumer wants, especially in the field of consumer durables, and the changing character of distribution—to mention the most obvious. Nevertheless, the index of per capita average real standards of living is both conceptually sound and statistically accurate, at least sufficiently so as to permit confidence in the results. We must stress, however, that all we have succeeded in accomplishing at this point is to obtain a relatively precise view of what has happened and what may be expected to happen to the *average* American.

It goes without saying that we do not live in a classless society and that there is consequently a sharp differentiation in actual levels of living among the various classes and, equally important, in trends in class standards of living. This brings us to the fourth and final step in our analysis of declining standards of living under the Permanent War Economy. Without some indication of the differences among classes, no matter how tentative the figures must necessarily be, it is impossible to complete our analysis or to understand the most significant causal relationships affecting living standards under the Permanent War Economy.

THEORETICALLY, THE PROBLEM OF analyzing changes in the living standards of the major classes in capitalist society is not too difficult. All that is required is workable definitions, delimiting each of the major functional classes in terms of their relationship to the productive forces, together with a distribution of their respective claims upon the available supply of consumer goods and services. Statistically, however, we are confronted with the impossibility of measuring per capita standards of living by classes with any real degree of accuracy. Despite the libraries of statistical data relating to the economic system and its functioning, which are so voluminous that no single individual can hope to master all the sources of information in an ordinary lifetime, the unfortunate and highly significant fact is that the data collected and published are not designed to disclose the precise inner workings of an exploitative society. On the contrary, specific information may jeopardize the competitive position, real or fancied, of a firm or an industry or may penetrate the cloak of moral sanctity which a venal ruling class uses to justify many of its actions. There is, consequently, not only a running battle between industry and government over the types of reports necessary for policy formation, especially when economic controls become mandatory, but also an inherent bias against the full truth in such data as are collected.

The choice, then, is one of halting our analysis of standards of living under the Permanent War Economy at a point where only classless conclusions can be reached, or of pioneering in an uncharted field in the hope that tentative conclusions will be helpful. We have chosen the latter course because there is sufficient empirical evidence that the impact of the Permanent War Economy has not been borne equally by all classes. "Equality of sacrifice" may be an attractive political slogan, but it is largely confined to pious resolutions. Consider, for example, this typical motivation for "equality of sacrifice" from the President's Economic Message to Congress of January 12, 1951: "It is essential that the sacrifices which are necessary in these critical times be shared fairly by all groups. Business men will be more cooperative in sacrificing peacetime profit objectives and paying more taxes, if it is clear that this is not being done just so farmers and workers can have more income.

"Farmers will be more cooperative in sacrificing peacetime farm income objectives, if it is clear that this is not being done just so workers can get more wages and business men can get more profits. Workers will be more cooperative in sacrificing peacetime wage objectives, if it is clear that this is not being done just to provide more profits for business or more farm income.

"Professional people, civil servants, office workers and those living on fixed incomes, will be willing to accept their share of necessary sacrifices, to the extent that it is clear that this is not being done just to provide for other people more profits or wages or farm income. All will be willing to make far more sacrifices for national defense and to keep our economy strong, if the burden is shared on a fair and equitable basis."

The classless approach, plausible as it may appear to some, freezes all the inequities that existed at the beginning of the Permanent War Economy or of any specific mobilization, even assuming that the policy of "equality of sacrifice" is rigorously enforced. Just what the record has been and is likely to be becomes apparent only on the basis of a class analysis.

It must be emphasized that while the class data which follow are experimental yet we believe that the broad conclusions which emerge possess general validity.

Our class breakdown is confined to the four major economic classes, working classes, middle classes, farming classes, and bourgeoisie, each concealing within its fairly broad limits rather distinct income and class variations. The bourgeoisie covers the various sections of the capitalist class, that is those who own or control the production and distribution of commodities and services, other than farmers, whose substantial incomes are derived from capital, although in certain cases they may take the form of salaries as corporation officers or managers. It is this numerically inconsequential class of barely more than one per cent of the population that exercises effective control over the economy of the United States. The variation in personal income within the bourgeoisie is greater, percentagewise, than within any other class as it ranges from the moderately well-to-do receiving $20,000 a year to the millionaire and multi-millionaire.

The farming classes cover all those who live or work on farms, whose incomes, whether they be agricultural migratory laborers, tenant farmers, small independent farmers, or large commercial farmers organized as single entrepreneurs, cooperatives or corporations, are derived principally from agriculture. The class differentiations within this group are as obvious as the contrast between the Farmers Union and the Farm Bureau. Although the farming classes currently compromise almost 20 per cent of the population, the income variations are extreme, extending from the poor itinerant laborer and poverty-stricken self-sufficient farmer who barely see any cash at all during the year to the wealthy landowner in California's lush Imperial Valley or other large-scale farm capitalist whose income and living standard are hardly distinguishable from the millionaire.

The middle classes are much harder to define, as at the lower limit they may overlap the working classes and at the upper limit the bourgeoisie. They include the small shopkeepers, the independent tradesmen and artisans, the independent professionals, and those salaried officials of government and private business who clearly belong to management, especially in relation to the power to hire and fire. Regarding salaried members of the middle classes, we have arbitrarily used as income limits to assist our functional analysis a range of $4,700 to $20,000 for 1948, the latest year for which family income distributions are available. In short, the bulk of single entrepreneurs and partnerships together with a minimum portion of salaried individuals in medium income brackets are numbered among the middle classes. Altogether, we currently place the middle classes at about 12 per cent of the population. If a strict income approach were to be used, the figure would be larger. The decisive criterion, however, is not income but relationship to production. All teachers and most government employees, for example, may think of themselves as middle class, but we have classified them as members of the working classes.

The working classes, consequently, compromise about two-thirds of the population and are much broader in scope than the factory proletariat. All those nonfarm workers who must sell their labor power in order to support themselves and their families, except for the relatively small portion of salaried employees included in the middle classes and the bourgeoisie, are subsumed under the heading "working classes." In addition to factory wage earners, the overwhelming majority of white collar employees is considered to be part of the working classes. What may be interpreted as an upward bias in the size of the working classes is enhanced by our decision to place all the unemployed and their families in the working classes. This was done not so much for theoretical reasons, although it could be amply justified on these grounds alone, but for the very practical reason that there is no basis whatsoever for assigning any portion of the unemployed to the middle classes, in spite of the fact that members of the middle classes do experience unemployment from time to time and then find employment in a position enabling them to preserve their middle class status. Income variations among the working classes thus range from virtually zero to approximately $5,000 a year, with certain salaried individuals employed by government or organizations receiving considerably more.

Our broad functional class approach corresponds to the relative fluidity of class lines in the United States. It is interesting to note that even the most patriotic classless appeals for national unity are constrained to recognize the existence of these broad economic classes. Having arrived at these definitions of the four major economic classes, it was then necessary to distribute the population, personal consumption expenditures and government nonwar purchases in accordance with our definitions. Distributing the population by classes did not present any insurmountable obstacles, as we begin with the existence of relatively good data on the farm population compiled by the Bureau of Agricultural Economics. The only significant manipulation required here was to allow for those members of the armed forces drawn from agriculture. The recent development of new series on the compensation of corporate officers, together with family income statistics and an arbitrary small percentage of the number of active proprietors of unincorporated enterprises, facilitated the derivation of the size of the bourgeoisie. The extent of the middle classes was based on the number of active non-agricultural proprietors, together with a portion of salaried employees adjusted for functional status and family income data. In effect, therefore, the calculation of the population of the working classes could be derived as a residual, except that the results were checked by using data on the number of non-agricultural employees together with fragmentary information on the number of employees per family and the number of individuals per family by income levels. We believe that the results are fairly consistent with our definitions.

To distribute personal consumption expenditures by classes required a more elaborate technique starting with the relationship between total personal income and total personal consumption expenditures, the overall data, including projections, being shown in Table V.

Personal income, as the name implies, delineates all income payments received by individuals and is presented by Commerce under these major heads: wage and salary receipts, other labor income, proprietors' and rental income, dividends, personal interest income, and transfer payments. Certain types of income payments, such as net interest paid by government and transfer payments are excluded from national income and product. When personal tax and nontax payments by individuals to government, excluding purchases from government enterprises and consisting chiefly of personal income taxes, are subtracted from personal income the result is equal to disposable personal income which must either be spent or saved. Personal income minus personal tax and nontax payments minus personal savings therefore equals personal consumption expenditures, although the technique used by Commerce measures personal consumption expenditures independently and obtains personal savings as a residual.

By analyzing the components of personal income separately, it was possible to break them down by classes in a manner consistent with the class distribution of the population. In certain cases, as for example rent, the distribution is admittedly arbitrary, but the resulting pattern appears to be plausible. Limitations of space prevent us from showing any of the class derivations. The distribution of personal tax and nontax payments was weighted entirely by the distribution of individual income taxes, as revealed by Treasury data through 1946, an OPA study on "Civilian Spending and Saving, 1941 and 1942," and selected TNEC data for 1939. Apportionment of personal savings was based on the aforementioned OPA and TNEC studies, a farm study by the Department of Agriculture for 1946 and, above all, a sample interview survey by the Federal Reserve Board showing the distribution of family liquid assets and savings in 1946 by income groups. We have no brief for the projections except that they seem to be reasonable. If there is any bias it is in the direction of minimizing personal taxes and savings of the working classes so as to maximize their personal consumption expenditures in order to set their standards of living at as high a level as possible.

Table V

TOTAL PERSONAL INCOME, PERSONAL TAX AND NONTAX PAYMENTS, PERSONAL SAVINGS, AND PERSONAL CONSUMPTION EXPENDITURES, 1939-1953

(Billions of Dollars)

Year	*Personal Income*	*Personal Tax and Nontax Payments*	*Personal Savings*	*Personal Consumption Expenditures**
1939	$72.6	$2.4	$2.7	$67.5
1940	78.3	2.6	3.6	72.1
1941	95.3	3.3	9.7	82.3
1942	122.7	6.0	25.5	91.2
1943	150.3	17.9	30.2	102.2
1944	165.9	18.9	35.4	111.6
1945	171.9	20.9	27.9	123.1
1946	177.7	18.8	12.0	146.9
1947	191.0	21.5	3.9	165.6
1948	209.5	21.2	10.9	177.4
1949	206.1	18.7	8.6	178.8
1950†	221.5	19.0	10.0	192.5
1951†	236.3	22.0	25.0	189.3
1952†	247.2	23.5	22.4	201.3
1953†	248.7	24.5	24.1	200.1

*Identical with the series shown in Table II, column one.

†Projections, with 1950 data based on actuals for first nine months, comparable to methods used for all output figures, with assumptions regarding increases in personal income taxes necessarily arbitrary.

Table VI

PER CAPITA STANDARDS OF LIVING BY CLASSES IN CURRENT AND 1939 DOLLARS, 1939-1953

Year	*Working Classes* Current Dollars	*Working Classes* 1939 Dollars	*Farming Classes* Current Dollars	*Farming Classes* 1939 Dollars	*Middle Classes* Current Dollars	*Middle Classes* 1939 Dollars	*Bourgeoisie* Current Dollars	*Bourgeoisie* 1939 Dollars
1939	$596	$596	$295	$295	$635	$635	$7,546	$7,546
1940	617	608	301	297	679	670	7,847	7,739
1941	688	628	368	336	736	672	8,466	7,732
1942	723	589	402	328	736	600	8,828	7,195
1943	773	599	402	312	790	612	8,748	6,781
1944	825	632	430	329	862	660	9,317	7,134
1945	862	647	420	315	884	664	10,533	7,908
1946	875	589	546	367	1,215	818	14,981	10,081
1947	949	531	641	359	1,324	740	18,579	10,391
1948	1,066	552	802	415	1,559	807	20,442	10,586
1949	1,103	594	771	415	1,615	870	20,299	10,937
1950	1,139	588	779	402	1,619	836	21,384	11,040
1951	1,073	534	809	402	1,646	819	20,764	10,330
1952	1,136	557	842	413	1,708	837	21,546	10,562
1953	1,087	532	876	429	1,749	856	22,051	10,793

Personal consumption expenditures by classes were then divided by the respective class populations in order to obtain per capita personal consumption expenditures by classes. To these results were then added per capita government nonwar purchases for the entire population on the assumption, already stated, that each person benefits equally from these contributions of government to the average standard of living. The maximum sum involved was $123 for 1949. The aggregate of per capita personal consumption expenditures by classes and per capita government nonwar purchases yields per capita standards of living by classes, the data for which in both current and constant dollars are presented in Table VI.

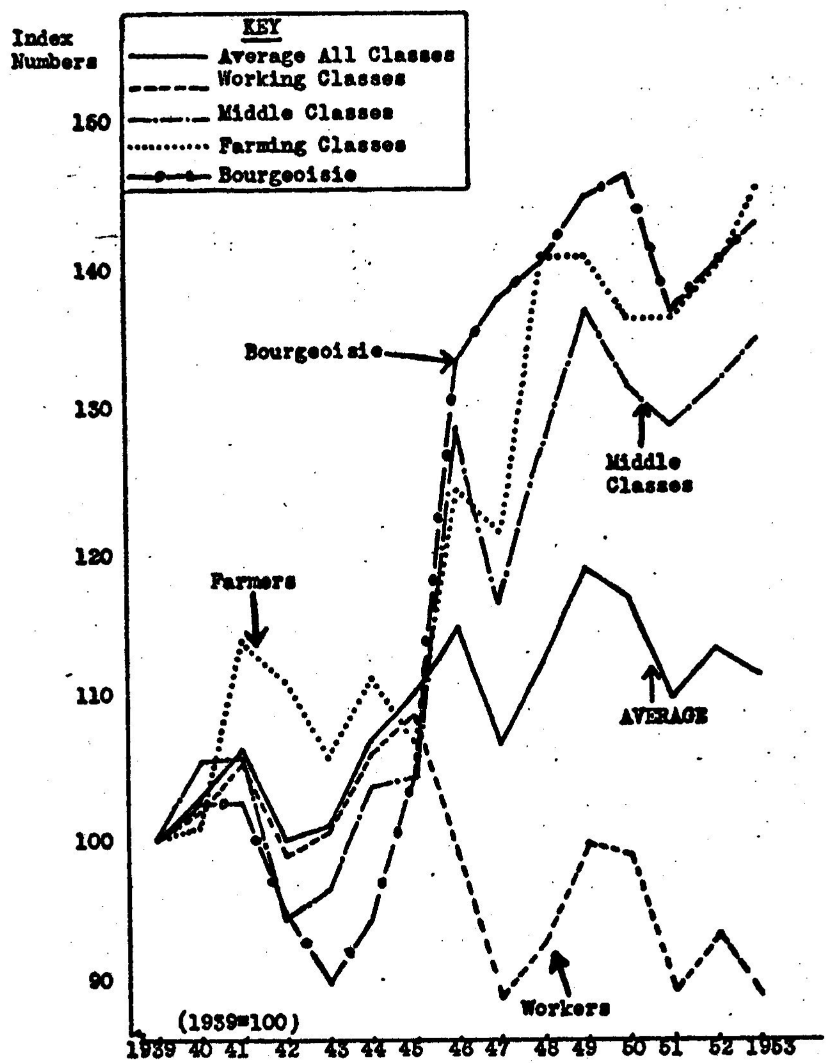
We have, of course, used the average price index developed in Table III to translate the current dollar figures into 1939 dollars, although a case can be made that the prices paid for commodities and services are not uniform in their rates of change for the various classes. Aside from the lack of evidence, it is unlikely that any attempt to adjust for such variations in price changes would materially affect the picture that emerges. Even in current dollars, the working classes have clearly lagged behind the rest of society. Merely on the basis of what has happened, as revealed by the increase in per capita standards of living in current dollars from 1939 to 1950, the myth of "equality of sacrifice" vanishes into thin air when confronted by facts. While the working classes were experiencing an increase from $596 to $1,139, a rise of 91 per cent, the middle classes went from $635 to $1,619, a rise of 155 per cent, the farming classes climbed from $295 to $779, a rise of 164 per cent, and the bourgeoisie soared from $7,546 to $21,384, a rise of 183 per cent. Now, as our data for 1951-1953 demonstrate, the disparity between the working classes and the other major classes will become even greater.

The gross average weekly earnings of production workers in manufacturing industries of the BLS, commonly used to describe changes in the status of the average worker, shows a rise from $23.86 in 1939 to about $59 in 1950, or an increase of 148 per cent. This is still below the increase in consumption for other classes and it must be remembered that "take-home" pay is a much better indicator of spending power than gross earnings. It is probable, however, that the factory proletariat enjoys a higher standard of living than most sections of the working classes.

TO VIEW THE REAL IMPACT OF THE Permanent War Economy on the standards of living of the various classes, it is helpful to express the per capita data in 1939 dollars contained in Table VI as index numbers. This is done in Table VII and in the accompanying chart, which graphically shows the trends in average and class per capita standards of living.

During the war there was a rough sort of equality among the classes, although it is clear that the farmers considerably improved their position. The rise in farm prices, aided by the preferred legislation successfully introduced by the farm bloc, made the farmers the one class whose standard of living exceeded the average. The workers roughly maintained their standard of living at the average level because of the rapid absorption of the unemployed as war outlays increased and the increased earnings due to overtime pay. The middle classes lagged slightly behind the average as many individual proprietors had to abandon their businesses due to the draft and the difficulty in obtaining supplies. The bourgeoisie lagged most, reaching their low point in 1943 when the first sharp increase in taxes took effect. In terms of comparative levels of living, however, the bourgeoisie maintained their overwhelming superiority over all other classes.

The year 1946 marked the transition from a period of relative freezing of class inequities to one where the working classes suffer both an absolute and relative decline in their living standards. From 1945 to 1946, as overtime ceased and unemployment increased with the termination of hostilities, the working classes underwent a decline of 9 per cent in their living standards, bringing them to a level below 1939. At the same time, as business opportunities expanded, the farming classes increased their living standards by 16 per cent, thus bringing them to a level 24 per cent above 1939 and more than compensating for any inequities that farmers may have experienced in 1939 due to their slow recovery from the depths of the depression; the middle classes augmented their living standards by 23 per cent, thereby rising to a level almost 29 per cent above 1939; and the bourgeoisie enhanced their already swollen living standards by 27 per cent, resulting in a level of living almost 34 per cent higher than in 1939. While these unprecedented divergent movements were taking place, the average per capita standard of living for all classes rose some 4 per cent, making the mythical average individual 15 per cent better off than in 1939.



TRENDS IN AVERAGE AND CLASS PER CAPITA STANDARDS OF LIVING, 1939–1953

Table VII

INDEXES OF AVERAGE & CLASS PER CAPITA STANDARDS OF LIVING, 1939-1953 (1939=100)

Year	Working Classes	Farming Classes	Middle Classes	Bourgeoisie	Average all Classes*
1939	100.0	100.0	100.0	100.0	100.0
1940	102.0	100.7	105.5	102.6	102.7
1941	105.4	113.9	105.8	102.5	106.3
1942	98.8	111.2	94.5	95.3	100.0
1943	100.5	105.8	96.4	89.9	101.2
1944	106.0	111.5	103.9	94.5	107.0
1945	108.6	106.8	104.6	104.8	110.3
1946	98.8	124.3	128.8	133.6	114.7
1947	89.1	121.7	116.5	137.7	106.8
1948	92.6	140.7	127.1	140.3	112.5
1949	99.7	140.7	137.0	144.9	119.0
1950	98.7	136.3	131.7	146.3	117.0
1951	89.6	136.3	129.0	136.9	110.0
1952	93.5	140.0	131.8	140.0	113.5
1953	89.3	145.4	134.8	143.0	111.5

*Taken from Table IV, column six.

The fate of working class living standards under the Permanent War Economy was irrevocably sealed in 1947, a year of unbridled inflation following the abandonment of price control with wages, contrary to most other forms of income, completely unable to keep pace with the rising cost of living. From 1946 to 1947, while the average standard of living for all classes declined almost 7 per cent, the working classes and middle classes experienced a catastrophic drop of almost 10 per cent and the farming classes experienced almost a 2 per cent decline but the bourgeoisie improved their position by 3 per cent. This meant that the average worker in

1947 was 11 per cent worse off than in 1939, but the average farmer was 22 per cent better off, the average member of the middle classes was 16.5 per cent better off, and the average member of the ruling class was 38 per cent better off. The fact that the average member of American society was 7 per cent better off was of little consolation to the workers who, as usual, bore the brunt of inflation.

Despite strike action and other attempts to improve their situation, the working classes could not show any significant recovery in their living standards by 1950. They still remained worse off than in 1939, while the farming classes were 36 per cent better off, the middle classes 32 per cent better off and the bourgeoisie 46 per cent better off, with the result that our mythical average American was 17 per cent better off. The fact that the average worker, including members of his family, received $1,139 worth of consumer goods and services in 1950 might indicate to the uninformed that the average member of the working classes enjoyed an extremely high standard of living. This is undoubtedly true compared with workers in other countries, but it is not true when compared with the situation of the average American worker in 1939 or of the average member of other classes. It is not even true that the average worker is better off than the average farmer, for in addition to the $779 that the average member of the farming classes received in 1950 he consumed a great many commodities raised on his farm that are not fully reflected in personal consumption expenditures. Certainly, the average member of the middle classes, who received more than $1,600 worth of consumer goods and services, was clearly in a better position than the average worker; and the average member of the bourgeoisie, whose consumption exceeded $21,000 in 1950, enjoyed such a luxurious standord of living that comparison with the average worker is like the position of a Stalinist or feudal lord contrasted with that of a modern or ancient serf.

Now, as the ratio of war outlays to total output increases sharply and controls are introduced, we can expect all classes except farmers to undergo a decline in their living standards in 1951. While the average for all classes is expected to decline 6 per cent, the farming classes will hold their own, the middle classes will experience a 2 per cent decline, the bourgeoisie a decline of less than 7 per cent, and the working classes a decline exceeding 9 per cent. A slight improvement in 1952 should then be followed by a further attack on working class living standards in 1953. If our analysis is reasonably valid, and we believe that it is, the disparity between the working classes and other classes will be greater by 1953 than ever before in recent history. A deterioration of almost 11 per cent in the standard of living of the average worker from 1939 to 1953 will be accompanied by a more than 45 per cent improvement in the position of the average farmer, an almost 35 per cent betterment in the status of the average member of the middle classes, and a 43 per cent enrichment in the wellbeing of the average member of the bourgeoisie. For the working classes the fact that the average member of society will still be 11.5 per cent better off than in 1939 only makes more poignant the general law that as capital accumulates under the Permanent War Economy, there is both a relative and absolute decline in living standards.

There can be little doubt concerning the general picture of living standards shown by the chart. Following the end of the war the working classes have suffered substantially in comparison with all other major economic classes. Inasmuch as the present increase in the ratio of war outlays to total output is taking place at a time when there is relatively little room for further expansion of civilian and total output, the possibility of duplicating the rough equality of World War II is virtually non-existent. There must be a decline in average real standards of living and, under capitalist conditions, the working classes can expect to bear the brunt of this inevitable diversion of resources from civilian to war output. It is indeed a sad commentary on the functioning of a capitalist war economy that the working classes appear to achieve a "more just" share of such consumer goods and services as are produced under an all-out mobilization, when the ratio of war outlays to total output is between 40 and 45 per cent, than under a semi-mobilization, when the ratio of war outlays to total output runs between 20 and 25 per cent.

It is, of course, politically much easier to achieve rough equality when there is very little to share than when more of the things that make life pleasanter are available for distribution. This is virtually a universal law applicable to all class societies. The situation in the United States since 1939, however, has been complicated by a number of factors whose impact, as the years unfold, is seen to be disproportionately heavier on the working classes than on the other major economic classes. We have reference to such elements in the economic equation as the incidence of the growth in population, the incidence of increased taxation, the concentration of net savings, the unequal burdens imposed by the temporary disappearance of certain consumer commodities from the market, the greater intensity of labor as manpower shortages develop, and the peculiarly chronic character of inflation under the Permanent War Economy.

As HAS BEEN INDICATED, the growth in population from 1939 to 1953 has been sizable, amounting to 21 per cent. But Marx's law concerning the polarization of classes has still been operating. Our tentative data reveal that for the fourteen years under analysis the farming classes will have experienced a decline of 3,600,000, more than enough to offset an increase of 2,000,000 among the middle classes and a growth of 500,000 in the bourgeoisie. Thus the size of the working classes will have expanded by 1,100,000 more than the increase in total population, or an augmentation of 29 million in the working classes. This is tantamount to a working class rate of growth of 35 per cent, with two-thirds of the increase occurring since the end of World War II, in large part due to the rapidly accelerating birthrate. Accordingly, we calculate the working classes as defined represented 63 per cent of the total population in 1939, but the proportion will have risen to 70 per cent by 1953! The pressure of increasing population is therefore almost exclusively in the direction of reducing the living standards of the working classes.

The incidence of taxation falls with increasing severity on the working classes as taxes are increased. We exclude reference to corporation taxes, for corporation profits after taxes have increased far more rapidly than wages after taxes and, in a good many cases, corporations have been able to pass higher taxes on to their customers in the form of higher prices. Regarding solely personal tax and nontax payments, the working classes paid less than 10 per cent of the total prior to 1943. With the first big increase in the individual income tax, accomplished more by a lowering of exemptions than an increase in tax rates, the working classes immediately jumped to about 35 per cent of total personal tax and nontax payments. Since 1943, the working classes have borne from one-third to two-fifths of this burden. Naturally, other classes have witnessed an increase in the *amount* of their personal tax and nontax payments, but their personal incomes have increased at a much faster pace than those of the working classes. Thus, the increase in taxation *rates* for the non-working classes has been relatively negligible. We shall return to this subject at a later date, particularly in relation to the current drive to impose a universal sales tax. That taxation, however, has been a potent weapon in reducing the standards of living of the working classes is beyond dispute.

SAVINGS OCCUPY A UNIQUE ROLE IN any discussion of standards of living. Possession of sizable savings, for example, can readily lead to a higher rate of consumer expenditure than would otherwise take place. This, in turn, would lead to a higher standard of living and, more importantly, to a competitive bidding up of prices where goods are in short supply, thereby depriving those without savings of commodities they would normally be able to obtain if not for the existence of large savings in relatively few hands. The Federal Reserve study previously cited indicates that in 1946 79 per cent of all net savings occurred among those groups with $4,000 or more income. This would indicate that the working classes account for approximately 20 per cent of net savings.

It may be objected that 1946 is not a typical year, inasmuch as personal savings are estimated at only $12 billion, while in the peak year of 1944 personal savings exceeded $35 billion. As a matter of fact, for the fifteen years under consideration personal savings, as can be seen from Table V, are estimated to total $252 billion, an average of almost $17 billion annually in spite of the low levels of 1939-1941. Our estimates indicate that the working classes increase their personal savings very sharply when the decline in the supply of consumption goods is noticeable, and that for the entire period they account for 32 per cent of the total. Thus, two-thirds of the population are responsible for less than one-third of personal savings, while one-third of the population accumulates more than two-thirds of personal savings, a per capita differential against the working classes of more than four to one.

Although personal spending and savings habits vary widely, class differences are the decisive factor in explaining why the average non-worker saves four dollars for every dollar saved by the average worker. By and large, working class savings are fortuitous and temporary, as witness the current decline in the net volume of E bonds outstanding. This is not because workers lack a "sense of thrift" compared with other classes, but because they lack the opportunity to accumulate large savings. Low incomes are hardly conducive to high rates of savings. Given the widespread use of credit, the lower one's income and therefore one's savings, the more restricted is the opportunity to obtain credit. Conversely, a person with large savings is a better "risk" than one with little or no savings and therefore more apt to receive credit in any of its various forms. Savings, consequently, have both a psychological and indirect effect on living standards and cannot be entirely ignored in any appraisal of relative standards of living, especially among the major economic classes.

It is clear that no set of statistics can adequately measure the impact on living standards of the disappearance, or relative disappearance, of entire classes of commodities from the market due to the imposition of government controls. If an extreme situation be considered, such as during the war, when the production of certain consumer durables like automobiles, refrigerators, radios, etc., ceased as a result of governmental edict, it may at first glance be thought that the disparity among class living standards is reduced. The living standards of the bourgeoisie, for example, suffer greatly, while those of the working classes are barely affected. There is the rough equality of the ration card. There is also, however, the gross inequality of the black market where "money talks." Likewise, the big hoarders can never be found among those whose incomes are too low to permit such unpatriotic actions, except on a very small scale. It is frequently stated that "anyone can buy anything for a price." To the extent that this is true, it tends to offset the declines in the levels of living of the upper classes in a period of actual reduction or elimination of certain types of civilian output. Although it is not susceptible of statistical proof, we suspect that the absolute or relative disappearance of consumer commodities from the legitimate market creates a heavier burden on the standards of living of the working classes than of any other class.

The lengthening of the work week and the payment of premium rates for overtime were important factors in explaining the rapid rise in the personal income of the average worker during the war. There are other methods, however, of increasing the intensity of labor. Speed-up can and does take place, especially where assembly-line methods of production prevail, and it is rarely accompanied by adequate compensation. Again, we are in a field where statistics are conspicuous by their absence. Nevertheless, it can be accepted as a universal law that the greater the shortage of manpower, the greater the intensity of labor. This is a burden that falls almost exclusively on the working classes. It has a most important bearing on real standards of living, for in a very real sense the capacity to enjoy leisure time is as important a measure of true living standards as the ability to purchase consumer goods and services. A worker whose leisure time has been reduced or who is physically exhausted by an inhuman speed-up of the assembly line and therefore in no position to enjoy such leisure time as he may theoretically possess has suffered a decline in his standard of living just as surely as if he experienced a reducduction in his real income. This entire problem, in turn, is related to incidence of illness, length of productive working life, income at retirement, and average longevity. There can be little doubt that all these factors adversely affect working class living standards to a marked, if not readily measurable, extent.

THE CHRONIC CHARACTER OF INFLAtion under the Permanent War Economy is apparent to anyone with eyes to see. Whether the degree of inflation from 1939 to 1950 be measured by the Consumers' Price Index, which shows a rise of 72 per cent, or the newly announced implicit price index affecting gross output of the Department of Commerce, which reveals a rise of 83 per cent (preliminary), or our own average price index, which displays a rise of 94 per cent, the fact remains that the price level has increased on the average by seven or eight per cent annually over the first eleven years of the Permanent War Economy. This rate of increase in the price level will continue to be maintained, regardless of controls, because inflation is unceasing and permanent.

The higher the ratio of war outlays to total output, the greater the degree of inflation. There is no method under capitalism whereby the creation of purchasing power through waste (war) production can be so controlled and absorbed that inflation is eliminated. The value and therefore the price of civilian output is necessarily augmented as the war sector of the economy increases in size and scope. A worker in an aluminum plant, for example, must receive the same wage whether the product of his labor goes into pots and pans or bombers and fighter planes. In the former case, however, he can through the market exchange the labor time expended in the production of pots and pans for food, clothing and other commodities and services needed to provide subsistence and constant reproduction of the value of his labor power. This is possible only because pots and pans possess a use value to other workers. If, on the other hand, he is producing warplanes these are of no interest to the workers who produce food and clothing and, in fact, are not distributed through the market mechanism but by government direct purchase or requisition. The inflation is inevitable because munitions production does not satisfy human wants and therefore cannot contribute to the reproduction or the expansion of the variable portion of capital.

The most that controls can do under capitalism is to slow down the rate of inflation and, if fairly devised and executed, distribute the burden equitably among all classes. It is precisely in this regard, however, that the naked class character of capitalism is most clearly revealed. The per capita output of consumer goods and services from both private and government sources, as was shown in Table VII, has increased, but the living standards of the working classes have declined. Inflation is one of the chief factors in the constant gnawing away at the living standards of the working classes under the Permanent War Economy. Just as taxes are designed to lighten the burden on business, so are inflation controls geared to bear most heavily on wages and to tread lightly on profits. By and large, the profits of the bourgeoisie are in effect guaranteed by the state, while wages rapidly depreciate under the full impact of inflation and controls—but this is a subject for another article.

To a Marxist, of course, standards of living are a function of the rate of surplus value. If the living standards of the working classes have declined, both relatively and absolutely, then there must have been an increase in the rate of surplus value. That this has indeed been the case can readily be seen from Table VIII.

Table VIII
RATE OF SURPLUS VALUE, 1939-1953
(Dollar Figures in Billions)

Year	*v* (Variable Capital)	*s* (Surplus Value)	*s/v* (Rate of Surplus Value)
1939	$43.3	$39.9	92%
1940	46.7	46.3	99
1941	56.6	60.5	107
1942	72.3	79.3	110
1943	89.7	94.0	105
1944	98.8	103.0	104
1945	98.1	104.7	107
1946	92.6	106.3	115
1947	98.8	119.6	121
1948	105.4	136.3	129
1949	105.6	131.2	124
1950*	115.0	142.0	123
1951*	124.2	155.2	125
1952*	129.9	163.4	126
1953*	131.1	168.1	128

*Estimated.

The absolute levels of surplus value and variable capital are necessarily tentative inasmuch as they are based on the class distribution of income data. Variable capital has been developed as the sum of wages and salaries of the working classes, wages and salaries of farm employees, other labor income (mainly employer contributions to private pension and welfare funds and compensation for injuries), employee contributions for social insurance, and employer contributions for social insurance. It will be noticed that the summation of variable capital and surplus value equals net national product in current dollars, as shown in Table I. In other words, on the theory that net national product actually represents the net value of current production or the total values created by labor power in the process of production, we have subtracted variable capital from net national product in order to obtain the magnitude of surplus value. The rate of surplus value is calculated as in Marx by dividing the mass of surplus value by the mass of variable capital.

The projections for employee and employer contributions for social insurance are arbitrary, although based on the anticipated effect of the revisions in the Social Security Act and our previously developed projections for the various income and output measures. These represent shares in current production even if they can only be spent in the future. A more serious objection to the simplified method used is the inherent assumption that the entire income of the nonworking classes is derived from the surplus values created by the working classes, whereas it is clear that a portion of the income of some farmers, some single entrepreneurs and even some members of the bourgeoisie represents productive labor. It is felt, however, that this is substantially offset by the broad definition of the working classes, which includes many unproductive workers (in the Marxian sense), such as government employees, certain types of white collar workers as salesmen, insurance agents, etc., the unemployed and retired workers. Moreover, the bourgeoisie and middle classes are heavy beneficiaries of employer contributions to private pension and welfare funds.

The calculated amount of surplus value appears to be reasonable and the rate of surplus value coincides with everyday observation and what one would expect to find from a more detailed study. Even if exception be taken to the magnitudes of s and v, the rising trend in the rate of surplus value is clearly established. From 1939 to 1953, the rate of surplus value will have increased almost 40 per cent. Eschewing our projections, this sizable increase in the rate of exploitation was already reached by 1948. It is only since then, and belatedly, that the trade union movement has made some slight progress in reducing the rate of surplus value. The conclusion is inescapable that the enormous growth in the productivity of labor since 1939 has not redounded to the benefit of the working classes.

The rise in the rate of surplus value from 92 per cent in 1939 to 129 per cent in 1948 and to an estimated 123 per cent in 1950 provides an incontestable refutation to the puerile argument of the apologists for the status quo that "labor has fared as well as anyone else, for wages and salaries remain fairly constant at about two-thirds of the national income." What these gentlemen conveniently overlook is the fact that wages and salaries constitutes a completely misleading income classification, concealing within its broad cover the six-digit salaries of corporation executives, Hollywood actors and leading public entertainers, not to mention the salaries of all types of people in managerial and semi-managerial positions. To lump together the salary of a Charles E. Wilson (General Motors or General Electric) with the $60 or $65 weekly wage of a typical factory worker is simply to render impossible any type of scientific analysis concerning standards of living or the real workings of the economic system. And the evidence is clear that compensation of corporate officers, for example, has increased faster than the wages and salaries of other corporation employees.

It is no longer possible to arrive at an approximation of the magnitude of surplus value, as Marx did, by adding the shares of income admittedly paid out in the form of profits, interest, rent and royalties. It is equally necessary to include a large portion of wages and salaries, representing currently at least all salaries in excess of $10,000 annually. Such an adjustment, obviously required if the true position of the working classes is to be realistically examined, results in an increase in the mass of surplus value of about one-third and almost doubles the rate of surplus value!

Reducing the rate of surplus value does not arrest inflation, but it would help to make the burdens of inflation and declining standards of living more equitable. These are the immediate and central tasks of the working classes on the economic front. The longer they are delayed the more likely is the new environment of the Permanent War Economy to entrench itself and to condemn the mass of humanity to an existence devoid of hope for escape from the threats or reality of misery, war and totalitarianism.

3. Increasing State Intervention

"When we are sick we do not let nature take its course, but send for a doctor or surgeon. . . . As in the physical world, so in the economic world." Thus spoke R. C. Leffingwell of J. P. Morgan & Co. in a speech reported in the *New York Times* of March 22, 1934, making it amply clear that the doctor in the economic world is the Federal government, i.e., the state. Not all sections of the American bourgeoisie supported state intervention as the remedy for the depression, but decisive support was forthcoming for the essential features of Roosevelt's "Dr. New Deal." Capitalism was seriously ill, to the point of prostration. Traditional methods of recovery, relying upon the "automatic" forces of the market had been tried and failed. Only state intervention could pump blood (profits) into the arteriosclerotic veins of a desperately sick economy.

The depression has been succeeded by the Permanent War Economy, but state intervention in the economy remains. In fact, it has increased until *state monopoly capitalism* provides an alternative description for the new stage of capitalism. Inasmuch as some degree of state intervention has obtained ever since the existence of national states, the nature, purposes and consequences of state intervention require somewhat detailed analysis to reveal precisely what is new in the situation.

The growing state intervention in the capitalist economy, which distinguishes it from the traditional or *laissez-faire* phase of capitalism, is an outgrowth of financial imperialism. This was clearly perceived by Lenin *(Imperialism: The Highest Stage of Capitalism*, p. 25) when he wrote: "Capitalism in its imperialist stage arrives at the threshold of the most complete socialization of production. In spite of themselves, the capitalists are dragged, as it were, into a new social order, a transitional social order from complete free competition to complete socialization. Production becomes social, but appropriation remains private. The social means of production remain the private property of a few. The general framework of formally recognized free competition remains, but the yoke of a few monopolists on the rest of the population becomes a hundred times heavier, more burdensome and intolerable."

The intercorporate arrangements that caused production to become social at the turn of the twentieth century have first been regularized and then controlled by the state as the twentieth century has unfolded. The preservation of "the yoke of a few monopolists" is now inconceivable without the direct and indirect support of the state, whose ubiquitous interference in daily life manifests itself in a thousand and one ways. At first, as Lenin indicates, ". . . . state monopoly in capitalist society is nothing more than a means of increasing and guaranteeing the income of millionaires on the verge of bankruptcy in one branch of industry or another." *(Imperialism*, p. 39) State intervention in the Great Depression of the 1930's was characterized exclusively by the objective of restoring the profits of the millionaires, and in this it was largely successful.

Events have a logic of their own. The restoration of the rate of profit could not be followed by an abandonment of state intervention. On the contrary, like a patient who has recovered from an almost fatal illness solely through taking medicine containing habit-forming drugs, the enduring "health" of capitalism demands the continuation of the "habit-forming drug" of state intervention. This becomes obvious as the economy of depression is followed by the Permanent War Economy. There are differences, however. Not only is state intervention more extensive, but it is no longer confined to restoring the profitability of "sick" industries. The most decisive sections of capital are subjected to state control and direction, but the reward is the virtual guarantee of the profits of the bourgeoisie as a class.

THE GROWTH OF THE STATE BUREAUcracy and the increasing consumption of surplus value by the state in the form of increasing taxes are both evidence of increasing state intervention and we shall examine the facts below. Increasing domination of the apparatus of state control by representatives of monopoly capital is an even more impressive feature of the new capitalism. Lenin, with his remarkable insight into the function of capitalism in its imperialist stage, also anticipated this development. Referring to finance capital as the "personal union" between banking and industrial capital, he states *(Imperialism*, p. 42): "The 'personal union' between the banks and industry, is *completed by the 'personal union' between both and the state.*" (Italics mine—T. N. V.) And the union between finance capital and its state is of the most personal nature possible through the appointment of outstanding representatives of "big business" to positions of authority in the administration of virtually all state controls affecting production, distribution and prices—and therefore profits.

The rationalization for state intervention in the depression was provided by John Maynard Keynes, who showed why traditional wage-cutting methods could not restore effective demand and the rate of profit. According to Keynes, restoration of effective demand could not be left to private control of investment decisions. "I conclude," says Keynes in *The General Theory of Employment, Interest, and Money* (p. 320), "that the duty of ordering the current volume of investment cannot safely be left in private hands." Thus, the role of the state is a steadily increasing one: "I expect to see the State . . . taking an ever greater responsibility for directly organizing investment." *(The General Theory*, p. 164)

Despite certain of his critics, especially the unreconstructed advocates of *laissez-faire*, the purpose of state intervention in the Keynesian system is to preserve capitalism. A perfectly fair and thoroughly valid appraisal of Keynes is provided by the American Keynesian, Seymour E. Harris, in his introduction to *The New Economics: Keynes' Influence on Theory and Public Policy* (p. 5): . . . "it may be well to insist that Keynes was essentially a defender of capitalism. Only the stupidity of those whom he supports can account for any other interpretation. *Keynes indeed offers government a larger degree of control over the economic process and a larger degree of operation than the old-fashioned classical economist; but his motive is to save capitalism, not destroy it. . . . Keynes wanted government to assume responsibility for demand, because otherwise the system would not survive.* [My Italics—T. N. V.] It was possible to have both *more* government activity and *more* private activity—if unemployment could only be excluded. And above all, Keynes would not remove the foundations of capitalism: free choice, the driving force of the quest for profits, the allocation of resources in response to the price incentive."

Keynes' own appraisal of his rôle accords quite closely with that of Harris. In the concluding notes to *The General Theory* (pp. 380-381), he writes: "Whilst, therefore, the enlargement of the functions of government, involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as *the only practicable means of avoiding the destruction of existing economic forms in their entirety* and as the condition of the successful functioning of individual initiative. [Italics mine—T. N. V.]

"For if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros, so that the players *as a whole* will lose if they have the energy and hope to deal all the cards. Hitherto the increment of the world's wealth has fallen short of the aggregate of positive individual savings; and the difference has been made up by the losses of those whose courage and initiative have not been supplemented by exceptional skill or unusual good fortune. But if effective demand is adequate, average skill and average good fortune will be enough.

"The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. *It is certain that the world will not much longer tolerate the unemployment which,* apart from brief intervals of excitement, *is* associated—and, in my opinion, *inevitably associated with present-day capitalistic individualism.* But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom." [Italics mine—T. N. V.]

The passage is remarkable, both for its typical expression of Keynes' fundamental thesis that only state intervention can save capitalism from destroying itself through mass unemployment and, for an otherwise first-rate economist, his complete inability to understand the origin and nature of profits. Why "effective demand" periodically is "deficient" requires an insight into the inner workings of capitalism impossible to attain without such basic Marxian tools as the labor theory of value, the laws of capital accumulation and the falling average rate of profit. Of this Keynes is incapable for, with all his emancipation from the fetishism of Marshallian economics, he still attributes the ability of capital to increase its magnitude (profits) to its "scarcity." Thus (*The General Theory*, p. 213), "the only reason why an asset offers a prospect of yielding during its life services having an aggregate value greater than its initial supply price is because it is *scarce;* and it is kept scarce because of the competition of the rate of interest on money."

While Keynes' "theory" of profits is, of course, sheer nonsense, it does not detract from his rôle as chief theoretician justifying state intervention. To quote the leading American Keynesian, Alvin H. Hansen, in an essay entitled, "The General Theory," contained in Harris' book previously cited: "David McCord Wright, in a recent article on the 'Future of Keynesian Economics' (*American Economic Review,* June, 1945), put his finger quite accurately on the basic change in *outlook* effected by the 'Keynesian Revolution.' We cannot follow, he says, the main lines of Keynes' argument and say that the capitalist system, left to itself, will automatically bring forth sufficient effective demand. Keynes' ideas 'derive much of their unpopularity because they form the most widely known arguments for intervention even though such intervention may be quite capitalist in nature.' It is the analysis of the problem of *aggregate demand,* together with the implications of this analysis for practical policy, which challenges the old orthodoxy."

Under the Permanent War Economy, state intervention in the capitalist economy not only expands, but also takes on added functions. The problem is no longer one of buttressing effective demand to eliminate unemployment. From an economy being undermined by deflationary forces, there has occurred a complete shift to one in which inflationary forces predominate. State intervention must therefore, in the first instance, now be concerned with controlling production and prices. Demand has become too effective and must be curbed; the state must also take such measures as are necessary to allocate supplies so as to achieve the desired balance between the war and civilian sectors of the economy.

The increase in state functions, accompanied by a loss in the effectiveness of the capitalist market, has meant a colossal expansion in government expenditures, which, in turn, has necessitated a phenomenal increase in taxes. The relationship of government income to current production and surplus value from 1939 to 1950 is shown in Table I.

In 1939, at the beginning of the Permanent War Economy, total government receipts were $15.4 billion, with Federal government receipts two billion dollars less than State and local government receipts. Starting in 1941, Federal government receipts rise sharply, dwarfing the relatively modest increase in State and local government receipts. By 1950, while the latter had more than doubled compared with 1939, the former had increased more than six times, with the result that total government receipts had more than quadrupled.

Even after government receipts of social insurance contributions, which have virtually tripled since 1939, are subtracted from total government receipts, total government receipts of taxes of all forms, including certain

TABLE I
RELATIONSHIP OF GOVERNMENT INCOME TO CURRENT PRODUCTION AND SURPLUS VALUE, 1939-1950
(Dollar Figures in Billions)

Year	Total Government Receipts (1)	Federal Government Receipts (2)	State and Local Government Receipts (3)	Total Gov't. Receipts of Social Insurance Contributions (4)	Total Gov't. Receipts of Taxes (Col. 1 minus Col. 4) (5)*	Net National Product (6)**	Taxes as % of Prod. (Col. 5 divided by Col. 6) (7)	Surplus Value (8)†	Taxes as % of Surplus Value (Col. 5 divided by Col. 8) (9)
1939	$15.4	$6.7	$8.7	$2.1	$13.3	$83.2	16.0	$39.9	33.3
1940	17.8	8.7	9.1	2.3	15.5	93.0	16.7	46.3	33.5
1941	25.2	15.7	9.5	2.8	22.4	117.1	19.1	60.5	37.0
1942	32.9	23.2	9.7	3.5	29.4	151.6	19.4	79.3	37.1
1943	49.5	39.6	9.9	4.5	45.0	183.7	24.5	94.0	47.9
1944	51.8	41.6	10.2	5.2	46.6	201.8	23.1	103.0	45.2
1945	53.7	43.0	10.7	6.1	47.6	202.8	23.5	104.7	45.5
1946	51.7	39.7	12.0	6.0	45.7	198.9	23.0	106.3	43.0
1947	57.8	44.0	13.8	5.7	52.1	218.4	23.9	119.6	43.6
1948	59.8	43.9	15.9	5.2	54.6	241.7	22.6	136.3	40.1
1949	56.2	39.2	17.0	5.6	50.6	236.8	21.4	131.2	38.6
1950‡	62.2	42.7	19.5	5.7	56.5	257.0	22.0	142.0	39.8

*Includes gross tax receipts plus minor amounts of nontax income.

**From Table I of previous article in March-April issue of *The New International.*

†From Table VIII of previous article in March-April issue of *The New International.*

‡State and local government receipts and receipts of social insurance contributions are estimated. The official figure for net national product in 1950, when released, will probably be about $2 billion higher than our estimate.

fees and related payments, have increased from $13.3 billion in 1939 to an estimated $56.5 billion in 1950. In other words, the cessation of hostilities, aside from minor declines in 1946 and 1949, has not been accompanied by any diminution in the state's appetite for surplus value. This becomes crystal clear when we examine columns seven and nine in Table I, portraying the share of government income in both total production and surplus value.

In 1939, one-sixth of current production and one-third of surplus value went to the state (all branches). This represented, so to speak, the fruits of state intervention in the depression. Under the impetus of the rapid increase in war outlays and increasing government controls, these proportions rose rapidly until in 1943 almost one-fourth of current production and nearly one-half of surplus value went to the state. In spite of steady declines from 1943 to 1949, there has been no question of restoring pre-war relationships. Even in 1949, the state consumed 21.4 per cent of current output and 38.6 per cent of surplus value. In 1950, these percentages increased to an estimated 22 and almost 40 per cent, respectively. With the present rapid increase in war outlays and Federal tax rates, it is obvious that these ratios will climb rapidly toward their wartime peaks.

ALTHOUGH IT IS TRUE, as shown in the last article on "Declining Standards of Living," that a sizable portion of taxes comes from the working classes, the bourgeoisie contribute the major share to the upkeep of the state. Hence, the loud hue and cry from the all sections of the capitalist press for "elimination of government waste." This is quite understandable when roughly two out of every five dollars accruing to the bourgeoisie go to support its state. Admittedly, there is considerable room for numerous savings in government operations without in any way impairing the functions of the state. Yet, before we shed tears for the "plight" of the American bourgeoisie, we would do well to examine its profits position. For, despite the huge overhead cost of the capitalist state, the bourgeoisie has never been so well off financially as it is today.

Naturally, when state expenditures exceed state receipts, *i.e.*, income derived from current production, the difference must be covered by state borrowing, representing essentially income derived from past production. The periodic rapid increase in the government debt becomes a potent source of inflationary pressure on the economy. In fact, state income and expenditures, or fiscal policy, are by far the most powerful single factor in determining the level at which the economy operates. Besides exerting great influence on the size of the national product, the nature of state fiscal policies in large measure ordains the composition of the national product among the various classes. To a significant extent, therefore, the personnel of the state bureaucracy becomes, as it were, an arena for the conduct of the class struggle. This is obviously the case where class pressures are exerted on Congress and State and local legislatures. It is equally true and, in certain cases, more so, when policy can be influenced or modified by administrative action, within the Executive branch of government. The recent attack of the United Labor Policy Committee on "big business domination of the Defense Program," and particularly on Defense Mobilizer Charles E. Wilson is a perfect illustration of the corroding impact of the Permanent War Economy on the functioning of capitalism, as well as the inordinate power that is concentrated in the hands of a single individual who is merely an appointee.

Controlling supply and prices, to mention only the obvious, requires a far larger state bureaucracy than the relatively simple function of buttressing effective demand, which was the chief rôle of the state during the depression. The war economy also demands a permanent increase in the military bureaucracy, aside from the periodic need to assure an adequate supply of cannon fodder. As a consequence, omitting from consideration the period of World War II itself, the state's claim on the employable labor force has increased markedly, as can be seen from Table II.

The total employed labor force, including the armed forces, has increased from 46,120,000 in 1939 to 61,457,000 in 1950, an increase exceeding fifteen million, or approximately one-third. This is without reference to the fact that the total employed labor force reached a peak of 65,220,000 in 1944 at the height of the war. In part, this was accomplished by a sharp reduction in the amount of unemployment and, in even larger part, by absorbing new entrants into the labor force arising from the growth in population.

Meanwhile, total State and local government employment increased from 3,287,000 in 1939 to 4,000,000 in 1950 (despite a slight decline during the war)—an increase of close to 25 per cent. This, however, is less than the increase in the total employed labor force. The growth in the state bureaucracy, as is only natural, is largely accounted for by the increase in total Federal government employment, which rose from 1,286,000 in 1939 to 3,730,000 in 1950—an increase of almost 200 per cent. Thus, total Federal government employment, which was two million less than total State and local government employment in 1939, almost equalled the latter in 1950. The result is that total government employment has increased from 4,573,000 in 1939 to

Table II
RELATIONSHIP OF GOVERNMENT EMPLOYMENT TO TOTAL EMPLOYED LABOR FORCE, 1939-1950
(In Thousands)

Year	*Total Labor Force, incl. Armed Forces (1)**	*Annual Average Unemployment (2)***	*Total Employed Labor Force (Col. 1 minus Col. 2) (3)*	*Total Federal Gov't Employment (4)†*	*Total State and Local Gov't Employment (5)‡*	*Total Gov't Employment (Col. 4 plus Col. 5) (6)*	*Gov't Employment Ratio (Col 6 ÷ Col. 3) (7)*
1939	55,600	9,480	46,120	1,286	3,287	4,573	9.9%
1940	56,030	8,120	47,910	1,587	3,306	4,893	10.2
1941	57,380	5,560	51,820	3,032	3,299	6,331	12.2
1942	60,230	2,660	57,570	6,326	3,235	9,561	16.6
1943	64,410	1,070	63,340	12,020	3,126	15,146	23.9
1944	65,890	670	65,220	14,395	3,092	17,487	26.8
1945	65,140	1,040	64,100	14,254	3,124	17,378	27.1
1946	60,820	2,270	58,550	5,841	3,339	9,180	15.7
1947	61,608	2,142	59,466	3,616	3,564	7,180	12.1
1948	62,748	2,064	60,684	3,442	3,752	7,194	11.9
1949	63,571	3,395	60,176	3,655	3,895	7,550	12.5
1950	64,599	3,142	61,457	3,370	4,000	7,730	12.6

*From Table D of "The Permanent War Economy," Jan.-Feb. 1951 issue of *The New International*, with actual 1950 substituted for estimate of 64,900,000.

**From Table C of "The Permanent War Economy," Jan.-Feb. 1951 issue of *The New International*, with actual 1950 substituted for estimate of 3,100,000.

†Breakdown shown in Table II-A; excludes Federal work relief employment totaling 3,216,000 in 1939, 2,792,000 in 1940, 2,192,000 in 1941, 909,000 in 1942, and 85,000 in 1943.

‡Breakdown shown in Table II-A; excludes State and Local work relief employment totaling 39,000 in 1939, 38,000 in 1940, 17,000 in 1941, and 5,000 in 1942.

7,730,000 in 1950—a rise of 69 per cent during the first eleven years of the Permanent War Economy.

The government employment ratio, set forth in column seven of Table II, tells the story so far as the over-all growth in the state bureaucracy and its relationship to total employment is concerned. From a ratio of less than ten per cent in 1939, meaning that only one employed person out of ten was on a government payroll, there occurred a steady rise to 12.2 per cent in 1941 and then a phenomenal increase during the war to a peak of 27.1 per cent in 1945. In other words, during the height of World War II, more than one employed person in every four was being supported by the state! Following the end of the war, there was, naturally, a rapid decline in the government employment ratio, until it reached a low of 11.9 per cent in 1948, with an increase since then to 12.6 per cent in 1950.

Again, the highly significant fact is that there is no return to the prewar relationship, even in the case of the government employment ratio. Instead of one out of ten belonging to one or another segment of the state bureaucracy, as was the case in 1939, we now have one out of every eight employed persons in this category. We have already exceeded the government ratio that prevailed in 1941 and are moving rapidly toward the relationship that existed in 1942. For the government employment ratio to increase beyond this level, approaching the fantastic heights of 1943-1945, would undoubtedly require participation by American imperialism in an all-out war effort. Nevertheless, the warnings are apparent on every hand that manpower, even more than strategic materials, will be the limiting factor in the current effort of American imperialism to contain and then to destroy Stalinist imperialism. Parenthetically, this is the decisive reason why American imperialism must seek and maintain allies, and why the MacArthur policy, to the extent that it would jeopardize this fundamental strategic aim, is suicidal.

The composition of government employment, as shown in Table II-A, reveals the crucial importance of manpower and demonstrates that not even American imperialism can maintain an economy of "guns and butter, too" if we assume that all-out war is in the offing.

Let us suppose, for example, that an all-out war effort against Stalinist imperialism will compel about the same manpower utilization by the military and Federal civilian bureaucracies as took place in 1944, and that it is desired at the same time to sustain the civilian economy at current high levels. An increase of almost eleven million in Federal employment over 1950 would be needed. Even allowing for full absorption of the unemployed, and the normal increase of several hundred thousand a year in those seeking work for the first time, there would still be a shortage of between seven and eight million. Even reducing State and local government employment to the 1944 level would save less than 900,000. Thus, private civilian employment would have to be reduced by six to seven million, or an equivalent amount of married women, retired workers and others not presently considered part of the labor force would have to be induced to seek and to accept employment. In either case, the impact on civilian output, aside from any shortages in materials or productive capacity, would be substantial.

Abstracting from the war situation itself, however, there has been approximately a tripling in the size of the Federal civilian bureaucracy, which rose from 571,000 in 1939 to an estimated 1,568,000 in 1950. Even more dramatic has been the increase in the military bureaucracy, which increased from 342,000 in 1939 to an estimated 1,500,000 in 1950—a growth of well over 300 per cent. As a permanent feature, the size of the military forces (without regard for the current build-up in connection with the Korean war) exceeds the number employed in public education. What a sad and fitting commentary on the moral bankruptcy of capitalism! Of at least passing interest is the sizable increase in the number of State and local government non-school employees, which declined from 1,877,000 in 1939 to 1,700,000 in 1944 and then rose to an estimated 2,342,000 in 1950—representing a growth of more than 25 per cent from 1939 to 1950. Even the cost of local police and bureaucratic functions increases!

Although the figures are still relatively small, the increase in employment in government enterprises, from a combined total of 516,000 in 1939 to an estimated 863,000 in 1950, is noteworthy—not only because this is an increase of almost 70 per cent, and nearly 80 per cent for Federal government enterprises alone, but because of the steadily rising trend. The sphere of nationalized production is gradually being enlarged, and this is not just a question of the postoffice, but rather of public utilities and atomic energy and, to some extent, transportation. It is no longer solely a question of nationalizing those industries that are incapable of operating at a profit. A new element has been injected and it has arisen only because of the dual aims of the war economy. Private capitalists either lack the resources or cannot be entrusted with such vital *war* tasks as development of synthetic rubber and atomic energy. Profitability is not the decisive consideration, but *survival*. The state, as the executive committee of the bourgeoisie, can do what no single capitalist or group of capitalists can do. Unlimited sums can be poured into any project which is deemed essential, whether it is profitable or not.

More than eleven per cent of government employment is currently to be found in nationalized enterprises. The process of erosion has begun, even in America, *the* stronghold of capitalist private property. While some of the more class-conscious capitalists are prone to question where it will all end, they are all consoled by the *actuality* of profits exceeding anyone's imagination.

HAND IN HAND WITH THE INCREASE in taxes and the permanent growth in the state bureaucracy go an enormous

TABLE II-A
COMPOSITION OF GOVERNMENT EMPLOYMENT, 1939-1950*
(In Thousands)

	FEDERAL			STATE AND LOCAL		
Year	*Civilian, except work relief*	*Military*	*Government Enterprises*	*Public Education*	*Non-school, except work relief*	*Government Enterprises*
1939	571	342	373	1,267	1,877	143
1940	653	549	385	1,273	1,872	161
1941	957	1,676	399	1,281	1,846	172
1942	1,719	4,154	453	1,270	1,794	171
1943	2,519	9,029	472	1,244	1,709	173
1944	2,545	11,365	485	1,226	1,700	166
1945	2,444	11,302	508	1,224	1,734	166
1946	1,864	3,434	543	1,277	1,883	179
1947	1,462	1,599	555	1,334	2,042	188
1948	1,408	1,468	566	1,369	2,187	196
1949	1,443	1,604	608	1,422	2,277	196
1950**	1,568	1,500	662	1,457	2,342	201

*These breakdowns of columns four and five of Table II represent full-time and part-time employees.
**Estimated.

increase in business and a fantastic increase in profits. This can readily be seen from an examination of the data for corporate sales, profits and taxes, shown in Table III.

We have shown the data for corporate sales, profits and taxes from 1929 to 1950, in order to demonstrate conclusively how the Permanent War Economy, with all its increasing state intervention, has paid off handsomely for the bourgeoisie. Although corporate tax liability for the decade 1929-1938 was negligible, totaling $9.2 billion for the entire ten years, corporate profits could not reach 1929 levels by a very sizable amount. Even corporate sales remained below 1929 despite state intervention during the depression. For the first ten years of the Permanent War Economy, however, corporate sales went up by leaps and bounds, reaching a level of $381.3 billion in 1948 and by 1950 were almost three times the level of 1929! Even when allowance is made for the depreciation of the dollar, the absolute increase in physical sales is fairly impressive. At the same time, corporate taxes totalled $97.5 billion for the first decade of the Permanent War Economy—a burden ten times that of the previous decade. Nevertheless, corporate profits *after* taxes increased from $20.3 billion in the decade 1929-1938 to $113.5 billion in the decade 1939-1948, an increase in the mass of net profit amounting to 459 per cent!

The superiority of war and war economy over the New Deal and public works, so far as the capitalist class is concerned, is unmistakably clear. As a matter of fact, the inclusion of 1929 profits distorts our comparison of the depression era with the Permanent War Economy. Proper procedure would begin the comparison with the year 1930. For the nine-year period, 1930-1938, corporate profits after taxes equalled $11.9 billion, while corporate sales minus gross profits totalled $881.8 billion, yielding a rate of profit of 1.3 per cent. Take any nine years of the first twelve years of the Permanent War Economy, and what a difference! From 1939 to 1947, for example, corporate profits after taxes equalled $92.6 billion, while corporate sales minus gross profits totalled $1,762.3 billion, yielding a rate of profit of 5.3 per cent.

The pump primer of increasing war outlays produced a doubling of sales and, even with the gigantic increase in taxes, a 678 per cent increase in the mass of net profits and a 308 per cent increase in the rate of profit! Increasing state intervention does, after all, have some good points. The Permanent War Economy has yielded a profit bonanza that is without precedent in a highly developed capitalist nation and is almost embarrassing to the bourgeoisie. And, in complete confirmation of the trends previously developed in the rate of surplus value and relative class standards of living, the picture improves from the point of view of the bourgeoisie. A new peak of $33.9 billion before taxes and $20.9 billion after taxes was reached by American corporations in 1948. Even the slight decline of 1949 left profits above the already swollen wartime levels. It remained, however, for 1950, aided in no small measure by the outbreak of the Korean war, to reach new historic profits and sales peaks. For the first time in history, corporate sales exceeded $400 billion. Corporate profits before taxes are estimated at $39.8 billion, with corporate profits after taxes likewise reaching a new high of $22.1 billion. Compare these figures with the increase in wages, even after allowance for rising personal income taxes, and it is clear that state intervention under the Permanent War Economy has restored both the mass and rate of profit. Capitalism has revived, at least so far as the bourgeoisie are concerned. If only it can be sustained indefinitely, ponder the theoreticians of the bourgeoisie!

Despite the "inventory recession" of the first half of 1951, the heavy industries, the "war babies," are not worried. "Current profits in some industries continue to be terrific," states Carlton A. Shively, stock market commentator of the New York *World-Telegram and Sun,* in his column of May 1, 1951. "That is true of oil, copper, steel, motor, rubber and tire and chemical industries. Many units in those industries are reporting for first quarter far higher net profits as compared with the same quarter of last year, and *the net profits as compared with fourth quarter, even after excess profits taxes, show little or no decline. Without the excess profits taxes the net profits for many corporations would be so large they would cause anxiety on many counts.*" (Italics mine—T. N. V.)

There can be no doubt that the wasting of resources, both human and natural, in war and preparation for war is a profitable business (so far) for the American bourgeoisie. The manner in which the war economy is run, with negotiated contracts (between big business and its own representatives in the government) and huge tax concessions through rapid amortization, means that profits are, in effect, guaranteed by the state. How the bourgeoisie and their apologists have the effrontery to complain about those unions that have cost-of-living escalator clauses in their contracts is virtually beyond comprehension. Yet, it is only when we examine what has happened to the *rate* of corporate profit that the real skullduggery of the bourgeoisie and the immense

TABLE III
CORPORATE SALES, PROFITS AND TAXES, 1929-1950
(Billions of Dollars)

Year	Corporate Sales (1)	Corporate Profits Before Taxes (2)	Corporate Tax Liability (3)	Corporate Profits After Taxes (Col. 2 minus Col. 3) (4)	Corporate Sales minus Gross Profits (Col. 1 minus Col. 2) (5)	Corporate Sales minus Net Profits (Col. 1 minus Col. 4) (6)
1929	$138.6	$9.8	$1.4	$8.4	$128.8	$130.2
1930	118.3	3.3	0.8	2.5	115.0	115.8
1931	92.4	—0.8	0.5	—1.3	93.2	93.7
1932	69.2	—3.0	0.4	—3.4	72.2	72.6
1933	73.0	0.1	0.5	—0.4	72.9	73.4
1934	89.6	1.7	0.7	1.0	87.9	88.6
1935	102.0	3.2	1.0	2.2	98.8	99.8
1936	119.5	5.7	1.4	4.3	113.8	115.2
1937	128.9	6.2	1.5	4.7	122.7	124.2
1938	108.6	3.3	1.0	2.3	105.3	106.3
* * * * *						
1939	120.8	6.5	1.5	5.0	114.3	115.8
1940	135.2	9.3	2.9	6.4	125.9	128.8
1941	176.2	17.2	7.8	9.4	159.0	166.8
1942	202.8	21.1	11.7	9.4	181.7	193.4
1943	233.4	25.0	14.4	10.6	208.4	222.8
1944	246.7	24.3	13.5	10.8	222.4	235.9
1945	239.5	19.7	11.2	8.5	219.8	231.0
1946	270.9	23.5	9.6	13.9	247.4	257.0
1947	347.8	30.5	11.9	18.6	317.3	329.2
1948	381.3	33.9	13.0	20.9	347.4	360.4
1949	359.7	27.6	10.6	17.0	332.1	342.7
1950*	409.0	39.8	17.7	22.1	369.2	386.9

*Estimated, with corporate sales based on the same proportionate increase over 1949 as total business sales; corporate profits and taxes estimated by Council of Economic Advisers based on actuals for first three quarters of 1950.

profitability of the Permanent War Economy become apparent.

Rates are far more susceptible of juggling than absolute figures, although we can be reasonably certain that the mass of corporate profit has not been overstated. What this mass of profit is divided by determines the rate of profit. Four different methods of computing the "rate of corporate profit" are shown in Table IV.

There is first the concept of the National Association of Manufacturers, the super trade association of certain segments of the big bourgeoisie. Not content with computing the rate of profit on sales, the N.A.M. adjusts net profits after taxes for changes in inventory valuation, on the theory that increases in inventory due to price changes are fortuitous and really not part of the profits of the bourgeoisie, especially when prices are going up. This approach is rationalized by emphasizing that low-cost inventory must be replaced at current high costs. Which is well and good, but the corporation that stocked inventory at relatively low costs still obtains a windfall profit, on which it has to pay income taxes, whether a compensating future loss is anticipated or not. And in an inflationary period, inventory losses due to price declines are not very likely.

A more important fallacy in the N.A.M. method of computing the rate of profit is that when the mass of profit is divided by sales, the effect is to count profit itself as a cost of production. This is necessarily so since the sales price includes the profit. Despite widespread profiteering and cries that the Office of Price Stabilization is attempting to control prices through control of profits, profits are a result and not a cost of production. To treat profits as a cost of production is equivalent to demanding a perpetual pyramiding of profits, for the larger the profit the larger the increase in profit that is required to maintain the former rate of profit. Nevertheless, even the N.A.M. figures cannot conceal the fact that the Permanent War Economy has done a pretty good job of restoring the rate of profit. Still, a rate of four or five per cent is less than the 6.4 per cent of 1929 and sounds sufficiently small to be inconsequential in its effect. The prevalence of figures, especially in press releases, calculating the rate of profit on sales is a tribute to the propaganda of the bourgeoisie and to its ability to promote its own self-interests, but is hardly conducive to scientific accuracy.

The mass of profit must therefore be divided by sales minus profit in order to begin to arrive at the rate of profit. This is done, without any changes for inventory valuation, in both the middle columns of Table IV. In both cases, the mass of profit is measured as the net profit after taxes. In the first case, however, corporate sales minus net profits are used as the denominator; in the second case, corporate sales minus gross profits are taken as the proper base on which to calculate the rate of profit. A rate of profit of six per cent is almost equal to the performance of 1929, and considerably better than the five per cent or less shown by the N.A.M. The difference, percentagewise, is substantial, especially if we take the figures for 1950, which we have already shown is the peak profit year in the history of American capitalism. The N.A.M. approach yields a rate of profit of but 4.4 per cent. Under our first method, we obtain a rate of corporate profit of 5.7 per cent, which is almost 30 per cent higher than the N.A.M. would show. Under our alternative method, the rate of profit becomes six per cent, which is more than 36 per cent higher than the N.A.M.'s figure!

The difference between our two methods, of course, is that in the former taxes are, in effect, treated as a cost of production, while in the latter the base on which profits are calculated is without reference to taxes. A moment's reflection will show that it is no more proper to consider taxes as a cost of production than profits. It is true that one of the great weaknesses of the present corporate tax structure is that most corporations are able to pass on higher taxes in the form of higher prices, thereby contributing to the inflation and maintaining the same mass of profit and, in some cases, the same rate of profit as existed before any given increase in corporation taxes. This, again, is hardly a justification for treating a result of production, for taxes (on corporations) are merely taking a portion of profit or surplus value, as a cost of production.

Arriving at a true official rate of corporate profit therefore requires subtraction of both profits and taxes from sales before the rate of profit is computed. The rate of profit, in terms of obtaining a true picture of what is actually happening in the economy, therefore ought to be calculated before taxes, both with reference to the mass of profit and to volume of capital employed to obtain a given profit. This is done in the last column of Table IV. The picture that emerges is considerably different from any previously discussed. Since 1941 the rate of corporate profit has exceeded 1929! For the war years and for 1950, the rate of profit runs in the neighborhood of eleven to twelve per cent—a level about 50 per cent higher than in 1929. The rate of profit in actuality is thus two and almost three times the mod-

TABLE IV
RATES OF CORPORATE PROFIT, 1929-1950*

Year	*N.A.M. Profit Margin on Sales*†	*Rate of Corporate Profit After Taxes (Col. 4 ÷ Col. 6 of Table III)*	*Alternative Rate of Corporate Profit After Taxes (Col. 4 ÷ Col. 5 of Table III)*	*Rate of Corporate Profit Before Taxes (Col. 2 ÷ Col. 5 of Table III)*
1929	6.4%	6.5%	6.5%	7.6%
1930	4.9	2.2	2.2	2.9
1931	1.2	—1.4	—1.4	—0.9
1932	—3.5	—4.6	—4.7	—4.2
1933	—3.4	—0.5	—0.5	0.1
1934	0.4	1.1	1.1	1.9
1935	2.1	2.2	2.2	3.2
1936	3.0	3.7	3.8	5.0
1937	3.7	3.8	3.8	5.1
1938	3.0	2.2	2.2	3.1
		* * *	* *	
1939	3.6	4.3	4.4	5.7
1940	4.7	5.0	5.1	7.4
1941	3.9	5.6	5.9	10.8
1942	4.0	4.9	5.2	11.6
1943	4.2	4.8	5.1	12.0
1944	4.3	4.6	4.9	10.9
1945	3.3	3.7	3.9	9.0
1946	3.2	5.4	5.6	9.6
1947	3.7	5.7	5.9	9.6
1948	5.0	5.8	6.0	9.8
1949	5.3	5.0	5.1	8.3
1950‡	4.4	5.7	6.0	10.8

*Derived from Table III, with the exception of the N.A.M. concept of the rate of profit.

†From "Profits and Prices," Economic Policy Division Series No. 31, October 1950, published by Research Department of N.A.M. Net profits after taxes are adjusted for changes in inventory valuation, as estimated by Department of Commerce as due to changes in price level.

‡Estimated.

est picture shown by the N.A.M. That the bourgeoisie have had to disgorge half or almost half of their profits to their own state for the conduct of their war and preparations for their future war has precisely nothing to do with the degree to which the working classes are exploited in the process of production.

IT IS ONLY THE RATE OF PROFIT before taxes that gives us an inkling of what a life-saver the Permanent War Economy has been to the bourgeoisie. Even this is far from the whole picture, for the simple reason that profits are only one form of surplus value. The capitalist who makes profits must share his cut of surplus values created by the workers with the capitalist who obtains interest, with those who obtain rent and royalties, with those whom he pays huge salaries to manage his wealth, and with the state which demands taxes to protect him and his system. The true rate of profit for all industry can thus be obtained only by dividing the mass of surplus value by the total amount of capital, both constant and variable, employed in production.

To arrive at meaningful figures for the Marxian formula for the rate of profit, *s* divided by (*c* plus *v*), is not easy, but it can be approximated through the following technique. Having already derived the mass of surplus value in the last article, together with the mass of variable capital, it is only necessary to obtain the magnitude of constant capital. We know of no method whereby this can be done directly, as there would be far too many gaps in building up the total mass of constant capital on an industry-by-industry basis. Even if reliable and comprehensive capital investment figures could be obtained, we would still lack information on the turnover of capital—a factor of critical importance in developing the rate of profit.

Accordingly, it is necessary to start with sales data, and to try to build up total sales or receipts for all industry. Inasmuch as the market price of a commodity represents its value, the proceeds from sales necessarily embody the values transferred by the employment of constant capital in production and the values created by the employment of variable capital or labor power in production. This approach conceptually yields a true *gross* national product for all industry. It may be objected that in many industries the market price of a commodity deviates from both its production price and value. This is of no consequence for we are seeking the rate of profit for *all* industry. The deviations of market price from value must cancel out; otherwise, there would be no profit or surplus value for the capitalist class *as a whole*. This, incidentally, is the pitfall on which all non-Marxian theories of profit collapse, for on top of their faulty theoretical approach they are immersed in the analysis of the single entrepreneur or firm. While marginal utility, scarcity, speculation, or risk-taking may on occasion explain the fortuitous profits of an individual firm, such theories cannot begin to explain how it is possible for the entire capitalist class to start with a given quantity of capital and to emerge from the process of production and circulation with an amount of capital exceeding the starting sum by a definite and measurable increment.

The data on corporate sales are readily available and were presented in Table III. Our problem therefore resolves itself into one of estimating the sales or receipts of unincorporated enterprises. Here we can begin with a Commerce series on "Total Business Sales," which covers only retail and wholesale trade and manufacturing. These data, with a breakdown shown between corporate and noncorporate sales, are presented in Table V.

TABLE V

CORPORATE AND NONCORPORATE RETAIL, WHOLESALE AND MANUFACTURING SALES, 1939-1950*

(Billions of Dollars)

	RETAIL TRADE			WHOLESALE TRADE			MANUFACTURING		
Year	Total	Corporate †	Noncorporate	Total	Corporate	Noncorporate	Total	Corporate	Noncorporate
1939	$42.0	$20.9	$21.1	$30.1	$21.3	$8.8	$61.2	$57.2	$4.0
1940	46.4	23.1	23.3	33.6	23.5	10.1	70.2	65.8	4.4
1941	55.5	27.4	28.1	43.4	29.7	13.7	98.0	92.0	6.0
1942	57.6	26.2	31.4	48.1	29.0	19.1	125.1	116.3	8.8
1943	63.3	27.3	36.0	51.3	30.3	21.0	153.9	141.9	12.0
1944	68.8	28.7	40.1	54.7	32.3	22.4	165.4	151.0	14.4
1945	75.8	31.2	44.6	59.8	34.7	25.1	154.6	138.7	15.9
1946	100.3	44.3	56.0	79.2	51.4	27.8	151.4	136.9	14.5
1947	118.9	56.9	62.0	93.1	65.2	27.9	191.0	177.8	13.2
1948	130.0	62.7	67.3	100.3	68.9	31.4	213.7	195.3	18.4
1949	128.2	62.3	65.9	90.0	61.3	28.7	200.0	182.4	17.6
1950‡	140.2	70.8	69.4	100.1	69.7	30.4	235.0	207.4	27.6

*Represents what Commerce terms "Total Business Sales"—"the sum of data for manufacturing and wholesale and retail trade. These figures are smaller than the nonfarm business statistics used in gross national product computations by the amount of sales . . . for construction, utilities and other nonindustrial sectors."

†Includes automobile services.

‡Corporate retail, wholesale and manufacturing sales estimated on the assumption that they increased by the same proportion over 1949 as total corporate sales, with non-corporate sales derived as a residual.

The data themselves are of more than passing interest. As one would expect, unincorporated enterprises play only a negligible rôle in the volume of manufacturing sales, but are fairly significant in wholesale trade, accounting for thirty per cent or thereabouts of total volume. In retail trade, however, noncorporate sales are as important as corporate sales, actually accounting for more than half of total retail sales in every year under consideration except 1950. In other words, it is primarily in retail trade that the bulk of the middle classes exists, a testimonial to the survival qualities of the corner grocery store and gasoline station.

The most interesting fact about these figures is the tendency for the importance of manufacturing to increase as war outlays (and controls) increase. Thus, while total manufacturing sales were less than the combined total of retail and wholesale trade sales in 1939, accounting for 46 per cent of total business sales, they increased steadily as war outlays and controls gathered momentum, reaching a peak of 57 per cent of total business sales in 1943 and 1944. Then, there was a rapid decline until in 1946 the prewar rate of 46 per cent prevailed again. The basic tendency for wasteful distribution to diminish in importance, and for manufacturers to sell directly to the government as well as to exert a squeeze on middlemen, reasserted itself following 1946, with the result that in 1950 manufacturing sales were 49 per cent of total business sales.

In a small way, these trends are corroborative evidence of the loss of effectiveness of the capitalist market as an allocator of resources. Looked at another way, while total wholesale trade sales increased 232 per cent from 1939 to 1950, and total retail trade sales augmented by 234 per cent during the same period, total manufacturing sales grew by 284 per cent. This is merely another way of saying that under the Permanent War Economy, aside from periods of all-out war, when the increase is even more striking, manufacturing has grown at a rate 20 per cent faster than distribution. The propensity of capitalism to dig its own grave through increasing industrialization and greater proletarianization of the labor force is thus strengthened under the Permanent War Economy.

To noncorporate sales for manufacturing, retail and wholesale trade, it was necessary to add sales or receipts for the remainder of unincorporated business activity, such as gross farm income, unincorporated construction activity, and the like. While there may be some duplication in the figures, and even some omissions, the gross figure for unincorporated business shown in column two of Table VI appears to be reasonable both as to level and trend.

THE SUMATION OF CORPORATE AND noncorporate sales or receipts yields the gross value of production, or *c* plus *v* plus *s*. *This* magnitude, together with its components, and the average rate of profit for all industry from 1939 to 1950 are shown in Table VI.

Constant capital was derived, as explained in the footnote to column four, by subtracting net national product (which represents the sum of variable capital and surplus value) from the gross value of production. An alternative method, since the magnitude of variable capital and surplus value were previously derived, would have been to subtract surplus value from the gross value of production, thereby obtaining total capital, i.e., the summation of constant and variable capital. Then, from this last figure, variable capital could have been subtracted in order to obtain constant capital. The results would naturally be identical.

It is the relationship between the magnitude of surplus value and the magnitude of total capital that determines the rate of profit, according to Marx, and for all industry, including the portions of surplus value paid out in the form of interest, rent, etc., in addition to that which is specifically labeled profits, he is unquestionably correct. The average rate of profit, shown in column eight of Table VI, thus portrays the actual performance of American capitalism under the Permanent War Economy.

Three facts of considerable importance emerge from this analysis of the average rate of profit: (1) The level of the average rate of profit is almost three times that shown in Table IV, confirming the easily observed fact that the capitalist who obtains profit must pay substantial tribute to the more parasitic members of the capitalist class who collect interest, rent, royalties, and absurdly large salaries (of course, in many cases, the division among capitalists as to the form and method of appropriating surplus value is not nearly as clear-cut as herein suggested). (2) The Permanent War Economy not only succeeded in restoring the profitability of American capitalism, but actually managed to increase the average rate of profit until 1944, i.e., there is a definite correlation between the ratio of war outlays to total output and the average rate of profit. An increase of 30 per cent in the average rate of profit, as occurred between 1939 and 1944-1945 is, in some ways, even more significant than the fact that the true average rate of profit for all industry reached a peak of one-third, for it is conclusive evidence that state intervention has as its major objective guaranteeing the profits of the bourgeoisie. (3) The Marxian law of the falling average rate of profit reasserts itself following the end of World War II, although it is significant that the maintenance of a ten per cent ratio of war outlays to total output is sufficient, in the short run at any rate, to maintain the average rate of profit at a higher level than existed in 1939 or even in 1940.

The data contained in Table VI represent the "guts" of the economic performance of American capitalism under the Permanent War Economy. From 1939 to 1950, the mass of surplus value rose from almost $40 billion to an estimated $142 billion, a rise of 256 per cent, the largest increase of any of the components of economic performance. Virtually keeping pace was the increase in the magnitude of constant capital, which rose from $112.3 billion in 1939 to an estimated $396.8 billion in 1950, a rise of 253 per cent. The gross value of total output, as measured by gross sales or receipts, naturally comes next in rate of growth, increasing from $195.5 billion in 1939 to an estimated $653.8 billion in 1950, a rise of 234 per cent. Then follows total capital, which rose from $155.6 billion in 1939 to an estimated $511.8 billion in 1950, a rise of 229 per cent. In last place is the increase in the magnitude of variable capital, which rose from $43.3 billion in 1939 to an estimated $115 billion in 1950, a rise of but 166 per cent. All of these changes combine to yield an increase over the first twelve years of the Permanent War Economy of eight per cent in the rate of profit.

In the process of capital accumulation, it is, however, as Marx observes, "the composition of the total social capital of a country" that is crucial in understanding the economic laws of motion that prevail. The organic composition of capital relates the growth in constant capital to total capital, and it is the increasingly high organic composition of capital, as constant capital increases relative to variable capital, that threatens capitalism with self-destruction through concentration and centralization of the social means of production in fewer and

TABLE VI

AVERAGE RATE OF PROFIT FOR ALL INDUSTRY, 1939-1950

(Dollar Figures in Billions)

Year	Corporate Sales* (1)	Noncorporate Sales or Receipts (2)†	c+v+s Gross Sales or Receipts (Col. 1 plus Col. 2) (3)	c Constant Capital (4)**	v Variable Capital (5)‡	c+v Total Capital (Col. 4 plus Col. 5) (6)	s Surplus Value (7)‡	s/c+v Average Rate of Profit (Col. 7 ÷ Col. 6) (8)
1939	$120.8	$74.7	$195.5	$112.3	$43.3	$155.6	$39.9	25.6%
1940	135.2	80.5	215.7	122.7	46.7	169.4	46.3	27.3
1941	176.2	99.8	276.0	158.9	56.6	215.5	60.5	28.1
1942	202.8	126.9	329.7	178.1	72.3	250.4	79.3	31.7
1943	233.4	148.7	382.1	198.4	89.7	288.1	94.0	32.6
1944	246.7	164.7	411.4	209.6	98.8	308.4	103.0	33.4
1945	239.5	180.0	419.5	216.7	98.1	314.8	104.7	33.3
1946	270.9	202.5	473.4	274.5	92.6	367.1	106.3	29.0
1947	347.8	203.7	551.5	333.1	98.8	431.9	119.6	27.7
1948	381.3	226.5	607.8	366.1	105.4	471.5	136.3	28.9
1949	359.7	223.1	582.8	346.0	105.6	451.6	131.2	29.1
1950¶	409.0	244.8	653.8	396.8	115.0	511.8	142.0	27.7

*From Table III, column one.

†To noncorporate retail, wholesale and manufacturing sales, shown in Table V, were added gross farm income, noncorporate and government construction activity, national income originating in finance, insurance and real estate, services, and government and government enterprises, and a miscellaneous factor based on the number of active proprietors in agricultural services, forestry and fisheries, mining, transportation, and communications and public utilities.

**Derived by substracting net national product, shown in column six of Table I, from column three.

‡From Table VIII of previous article in March-April 1951 issue of *The New International*.

fewer private hands and all the social consequences that then unfold. The trend in the organic composition of capital under the Permanent War Economy can easily be calculated from the data in Table VI, and we present below the rates for the years of significant change:

Year	*Composition of Capital*
1939	72.2%
1941	73.7
1944	68.0
1946	74.8
1948	77.6
1949	76.6
1950	77.5

The mass of the means of production were thus 72.2 per cent of the total capital, including labor power, employed in production in 1939. The percentage rose slightly, in conformity with the generally observed tendency toward an increasingly high organic composition of capital, to 73.7 per cent in 1941. There then followed a perceptible decrease, during American participation in World War II, to a nadir of 68 per cent in 1944. A slight increase in 1945 was followed by a substantial increase in the composition of capital in 1946, as peacetime output resumed, with the upward trend continuing until a new peak of 77.6 per cent was attained in 1948. A slight slump during the recession of 1949 was only preliminary to virtual restoration of the 1948 peak in 1950. The organic composition of capital has thus increased by more than seven per cent between 1939 and 1950, and by 14 per cent from 1944 to 1950.

The decline in the organic composition of capital during the war years is not surprising in view of the huge increase in the ratio of war outlays to total output, for it can be directly traced to the decline in the productivity of labor that takes place in wartime, to the physical necessity of increasing output through abnormal reliance on manpower, to the drastic decline in net private capital formation, and to the vicissitudes of the class struggle that placed the proletariat in a position to accomplish a slight reduction in the rate of surplus value. As a matter of fact, all these factors operated in the United States from 1942-1945; the only wonder is that the decline in the organic composition of capital during World War II was not greater.

Since, at an 80 per cent composition of capital, four dollars of means of production are needed to yield a wage of one dollar to the average worker, the relative diminution in the variable constituent of capital as capital accumulates makes it increasingly difficult under capitalism to employ the entire available labor force. This pressure continues to exert itself even though the Permanent War Economy has, in its own way, as previously explained, "solved" the problem of unemployment. Precisely where the breaking point is likely to be, no one can say, but it is clear that the composition of capital is already dangerously high and constitutes a sword of Damocles, hanging over the unsuspecting head of such a highly-geared capitalist economy that in a few years it is possible to produce all the automobiles, television sets, etc., that can be sold under capitalist conditions of production. If, therefore, only a very high ratio of war outlays to total output can reduce the composition of capital or, at least, arrest the tendency toward a constantly increasing composition of capital, then the economic motives for American imperialism to engage in such activities in foreign policy as warrant an increase in war outlays, even if the ultimate consequence is all-out war, are laid bare for all those with eyes to see who wish to see.

It is not necessary to rely on our calculations and derived figures to conclude that the Permanent War Economy has yielded an unprecedented profit bananza for the bourgeoisie, restoring both the mass and rate of profit to record-breaking levels. We can first look at the results of a study by the Securities and Exchange Commission for manufacturing corporations listed on the stock exchange. This study, covering the years 1938 to 1947, is indicative of what has happened to the largest aggregates of capital. Its results are embodied in Table VII.

It will be seen that the rate of profit on sales is consistent with the ratios that we developed earlier in this article. Net profit before income taxes for these leading manufacturing corporations was only $1.6 billion in 1938, with net profit after taxes $1.3 billion. A spectacular rise until 1944 then took place, followed by a decline in 1945 and in 1946, and then the reaching of new heights in net profits before taxes in 1947. At more than $10 billion in 1947, these 1,306 manufacturing corporations averaged a net profit before income taxes in excess of $7.7 million, which was about four times the level of 1939. Even after income taxes, these principal manufacturing corporations earned $6.4 billion in 1947, or almost five million dollars on the average. Despite the rise in corporation income taxes, this was three times the level of 1939!

The return on net worth, which represents invested and reinvested capital, is by far the most interesting set of figures in the table as, without reference to the turnover of capital, the return on net worth indicates the expansive qualities of capital. On a before-income-tax basis, the rate of return on net worth rose from 6.4 per cent in 1938 and 10.2 per cent in 1939 to a wartime peak of 27.9 per cent in 1943 and then declined to 17.6 per cent in 1946, but immediately rose again to 27.4 per cent in 1947. The confirmation of our earlier conclusions is readily apparent.

The rate of return of net profits *after* income taxes on net worth is the final proof that our contentions are completely accurate with respect to the impact of the Permanent War Economy on profits. From a rate of 5.1 per cent in 1938 and 8.3 per cent in 1939, the return on investments in major manufacturing corporations rose to 12 per cent in 1941, then leveled off during the war at a rate between 9.6 and 10.1 per cent, rose to 11.9 per cent in 1946 and jumped to 17.2 per cent in 1947! At the 1947 rate of re-

TABLE VII

MASS AND RATE OF PROFIT OF LISTED MANUFACTURING CORPORATIONS, ACCORDING TO S.E.C. SURVEY, 1938-1947*

	NET PROFIT AFTER INCOME TAXES			*NET PROFIT BEFORE INCOME TAXES*		
Year	*Amount (Billions of Dollars)*	*As A % of Sales*	*As A % of Net Worth†*	*Amount (Billions of Dollars)*	*As A % of Sales*	*As A % of Net Worth†*
1938	$1.6	6.6%	6.4%	$1.3	5.3%	5.1%
1939	2.5	9.5	10.2	2.1	7.7	8.3
1940	3.7	12.2	14.7	2.6	8.4	10.1
1941	6.4	15.0	24.7	3.1	7.3	12.0
1942	7.0	12.7	25.7	2.6	4.8	9.6
1943	7.9	11.1	27.9	2.8	3.9	9.7
1944	8.2	10.4	27.4	3.0	3.8	10.1
1945	6.4	8.6	19.9	3.1	4.2	9.6
1946	6.0	9.6	17.6	4.1	6.5	11.9
1947	10.1	11.7	27.4	6.4	7.4	17.2

*Securities and Exchange Commission Survey Series Release No. 151, published April 27, 1949, covers manufacturing corporations listed on the stock exchange, with the number of companies varying from 1,013 in 1938 to 1,306 in 1947.

†Net worth is calculated as of the beginning of the year.

turn, assuming maintenance of the tax rates in existence at that time, a capitalist would receive back his entire investment in a manufacturing enterprise in less than six years. To match a performance of this kind one must return to the earlier days of capitalism when it was in its ascendancy. Such a rate of return, almost twenty years after American capitalism entered the permanent crisis of world capitalism, is a tribute not only to the effectiveness of the Permanent War Economy in preserving capitalism, but also to the enormous inner strength and productive capacity of American capitalism.

Unfortunately, the S.E.C. study does not go beyond 1947. We can, however, turn to the annual study of National City Bank of New York to obtain a reliable picture of current profits of leading corporations. To facilitate examination, we have divided the data contained in the National City Bank's *Monthly Letter* of April 1951 into two tables. In Table VIII-A, we present the data comparing profits after taxes and book net assets (net worth) in 1950 with 1949.

As MEMORANDA ITEMS, WE HAVE selected the four manufacturing industries that show the greatest net profit after taxes. These are the pillars of heavy industry. Their performance in 1949 is clearly comparable to 1947 (and 1948 was even a better profits year than 1947 or 1949), but in 1950 it is breathtaking. Forty-five petroleum companies increased their net profits after taxes from $1,413,000,000 in 1949 to $1,730,000,000 in 1950, an increase of 22 per cent. Fifty-five iron and steel corporations increased their net profits after taxes from $555,000,000 in 1949 to $786,000,000 in 1950, an increase of 41 per cent. Sixty-five chemical concerns increased their net profits after taxes from $543,000,000 in 1949 to $743,000,000 in 1950, an increase of 37 per cent. Twenty-six automobile companies increased their net profits after taxes from $857,000,000 in 1949 to $1,054,000,000 in 1950, an increase of 23 per cent.

For 1,693 leading manufacturing corporations, net profits after taxes increased from $7,046,000,000 in 1949 to $9,288,000,000 in 1952, an increase of 32 per cent. No wonder, then, that a special joint study of the S.E.C. and Federal Trade Commission (summarized in *The New York Times* of April 27, 1951) reports that: "Profits of manufacturing corporations touched the highest point in history during 1950. . . . The report disclosed that the 1950 net income of the corporations before payment of Federal taxes was 61 per cent higher than in 1949, or $23,200,000,000, compared with 1949's total of $14,400,000,000. Net income after taxes of manufacturing corporations in 1950 was estimated at about $12,900,000,000, or 43 per cent more than in 1949." The study shows that this phenomenal profit performance occurred despite an increase of almost 100 per cent in provision for Federal taxes.

The joint study also shows that the larger the assets, the smaller the rate of increase in net profits after taxes, again confirming the Marxian analysis of the results of capital accumulation. Those companies "with assets of $750,000 or less showed an average profit increase in 1950 over 1949 of 106 per cent." At the other end of the scale, "those of $100,000,000 and over averaged 32 per cent (increase in net profits after taxes in 1950 compared with 1949)." The previous record year of 1948 was exceeded by 11 per cent.

Returning to the National City Bank study, the percentage increase in net income after taxes in 1950 over 1949 for leading corporations ranges all the way from eight per cent for 695 finance companies to 73 per cent for 248 firms engaged in transportation. Thus, for the grand total of 3,304 companies included in the study, net profits after taxes rose from $10,468,000,000 in 1949 to $13,563,000,000 in 1950, an increase of 30 per cent. The book net assets of these same corporations rose from $95.4 billion in 1949 to $101.9 billion in 1950, with manufacturing representing about half the number of companies and an equivalent portion of total capital investment.

The rate of profit for these same

TABLE VIII-B

RATE OF PROFIT OF LEADING CORPORATIONS IN 1950 COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.*

Number of Companies	Industrial Groups	% Return on Net Assets† 1949	% Return on Net Assets† 1950	% Margin on Sales 1949	% Margin on Sales 1950
(45)	Petroleum Products	13.2%	14.9%	9.9%	10.8%
(55)	Iron and Steel	11.6	15.3	7.2	8.1
(65)	Chemical Products	17.1	21.3	10.3	11.7
(26)	Autos and Trucks	30.2	32.3	8.9	8.9
1,693	Total Manufacturing	13.9	17.1	6.8	7.7
98	Total Mining, Quarrying	12.0	15.0	12.3	12.6
178	Total Trade (Retail and Wholesale)	13.4	14.8	3.3	3.8
248	Total Transportation	3.4	5.7	4.8	7.7
293	Total Public Utilities	8.8	9.8	11.9	13.1
99	Total Amusements Services, etc.	9.9	10.5	4.8	5.7
695	Total Finance	9.1	9.0	—	—
3,304	GRAND TOTAL	11.0	13.3	6.6	7.7

*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

TABLE VIII-A

MASS OF PROFIT OF LEADING CORPORATIONS IN 1950 COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.*

Number of Companies	Industrial Groups	Reported Net Income After Taxes 1949 (Millions of Dollars)	1950 (Millions of Dollars)	Increase % 1949 to 1950	Book Net Assets as of Jan. 1† 1949 (Billions of Dollars)	1950 (Billions of Dollars)
(45)	Petroleum products	$1,413	$1,730	22%	$10.7	$11.6
(55)	Iron and steel	555	786	41	4.8	5.1
(65)	Chemical Products	543	743	37	3.2	3.5
(26)	Autos and trucks	857	1,054	23	2.8	3.3
1,693	Total manufacturing	7,046	9,288	32	50.7	54.4
98	Total mining, quarrying	219	282	29	1.8	1.9
178	Total trade (retail and wholesale)	577	679	18	4.3	4.6
248	Total transportation	503	873	73	15.0	15.2
293	Total public utilities	1,066	1,300	22	12.0	13.3
99	Total amusements services, etc.	93	102	10	0.9	1.0
695	Total finances	964	1,040	8	10.6	11.6
3,304	GRAND TOTAL	10,468	13,563	30	95.4	101.9

*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

companies in the National City Bank study is shown in Table VIII-B.

Impressive as is the percentage margin on sales, even more spectacular is the return on net assets. While the performance for leading manufacturing corporations as a whole confirms the results of the S.E.C. study previously cited in Table VII, with an increase in return on net assets from 13.9 per cent in 1949 to 17.1 per cent in 1950, it is interesting to note that the 65 chemical companies increased their return on net assets from 17.1 to 21.3 per cent, and the 26 auto and truck companies went from 30.2 to 32.3 per cent. Thus, for a corporation like General Motors, the most terrific profit-maker in the history of American capitalism, invested capital is paid for every three years!

In every category except finance the return on net assets rose from 1949 to 1950, with the grand total for the entire 3,304 leading corporations rising from 11.0 per cent to 13.3 per cent, which is an increase of over 20 per cent in the rate of return, despite an increase of $6.5 billion in net assets.

On the assumption that all capital invested and reinvested is employed in production, the comparison between the return on sales with the return on net assets indicates the turnover of capital and its different rates among major industries. "The shorter the period of turnover," says Marx (*Capital*, Vol. III, Kerr ed., p. 85), "the smaller is the fallow portion of capital as compared with the whole, and the larger will be the appropriated surplus value, other conditions remaining the same." Although it would be preferable to obtain the rate of turnover on capital by dividing total sales by total invested capital, the same result can be obtained by dividing the percentage return on net assets by percentage margin on sales. Inasmuch as the difference between capital turnover in 1950 and in 1949 is negligible, we present below merely the turnover times for major industrial categories, based on Table VIII-B, in 1950:

Industrial Group	*Turnover in 1950*
Manufacturing	2.2
Mining, Quarrying	1.2
Trade (retail and wholesale)	3.9
Transportation	0.7
Public Utilities	0.7
Amusements, services, etc.	1.9
TOTAL ALL GROUPS	1.7

In other words, for the companies contained in the National City Bank study as a whole, capital was turned over 1.7 times in 1950, or about every seven months. The variation among industrial groups is extreme, ranging all the way from the slow turnover time of 0.7 in such heavy fixed capital industries as transportation and public utilities to the very rapid turnover of 3.9 in retail and wholesale trade, where a tremendous volume of business can be done with a relatively small capital investment as capital turns over once in almost every three months. This, of course, is another reason why calculating the rate of profit solely with reference to sales is completely misleading. For total manufacturing, the turnover is 2.2, but for autos and trucks the turnover time is 3.6, indicating why the automobile industry is so profitable.

THE BOURGEOISIE AS A CLASS recognizes, although with considerable reluctance, that government planning and state intervention and compulsory controls are necessary as a matter of survival if the aims of the Permanent War Economy are to be fulfilled. As Truman stated in the President's Economic Message to Congress of January 12, 1951: "A defense emergency requires far more planning than is customary or desirable in normal peacetime. The military build-up is a planned effort. The mobilization of industrial support for this military build-up is a planned effort. The industrial cutbacks and civilian restraints, necessary to achieve military and economic mobilization, are planned efforts. . . . In these critical times, it is recognized that Government must assume leadership in this planning. It has the prime responsibility for national security. It has access to the basic information. The most important operation toward this end is the broad programming of various major requirements; the balancing of these requirements against supply; and the development of policies to satisfy needs according to priority of purpose."

These are the functions that under capitalist theory are normally reserved for prices and the market economy. That the market increasingly atrophies as a regulator of production or allocator of resources compelling increasing state intervention is the most distinctive change in the *modus operandi* of capitalism as the war economy develops. The question logically arises: why cannot voluntary controls work? Charles E. Wilson, defense mobilization director, gave a brief and direct answer to this question in a speech reported in *The New York Times* of January 18, 1951: "What about our economy in the face of such expansion, such expenditures, such use of materials? How do we keep it from running away? There is only one answer—controls. I hate the word—so do you. But there is no other way. *Voluntary methods will not work. That has been proven.*" (Italics mine—T.N.V.) In other words, experience has shown that appeals to loyalty, patriotism, etc., are no substitute for the state power of coercion.

Practical experience has thus gone a long way toward reconciling the bourgeoisie to increasing state intervention, especially when the ratio of war outlays to total production exceeds ten per cent. As that arch exponent of *laissez-faire* capitalism, Ludwig von Mises, expresses the alternative (*Economic Planning*, 1945, p. 13): "If the market is not allowed to steer the whole economic apparatus, the government must do it." To be sure, von Mises argues that even in wartime, if the "right methods" are used, controls are unnecessary (*Bureaucracy*, 1944, pp. 30-31):

> It has been objected that the market system is at any rate quite inappropriate under the conditions brought about by a great war. If the market mechanism were to be left alone, it would be impossible for the government to get all the equipment needed. The scarce factors of production required for the production of armaments would be wasted for civilian uses which, in a war, are to be considered as less important, even as luxury and waste. Thus it was imperative to resort to the system of government-established priorities and to create the necessary bureaucratic apparatus.
>
> The error of this reasoning is that it does not realize that the necessity for giving the government full power to determine for what kinds of production the various raw materials should be used is not an outcome of the war but of the methods applied in financing the war expenditure.
>
> If the whole amount of money needed for the conduct of the war had been collected by taxes and by borrowing from the public, everybody would have been forced to restrict his consumption drastically. With a money income (after taxes) much lower than before, the consumers would have stopped buying many goods they used to buy before the war. The manufacturers, precisely because they are driven by the profit motive, would have discontinued producing such civilian goods and would have shifted to the production of those goods which the government, now by virtue of the inflow of taxes the biggest buyer on the market, would be ready to buy.
>
> However, a great part of the war expenditure is financed by an increase of currency in circulation and by borrowing from the commercial banks. On the other hand, under price control, it is illegal to raise commodity prices. With higher money incomes and with unchanged commodity prices people would not only not have restricted but have increased their buying of goods for their own consumption. To avoid this, it was necessary to take recourse to rationing and to government-imposed priorities. These measures were needed because previous government interference that paralyzed the operation of the market resulted in paradoxical and highly unsatisfactory conditions. Not the insufficiency of the market mechanism but the inadequacy of previous government meddling with market phenomena made the priority system un-

avoidable. In this as in many other instances the bureaucrats see in the failure of their preceding measures a proof that further inroads into the market system are necessary.

We may not be pardoned for reproducing at length the views of one of the last living theoreticians of nineteenth century capitalism, but his views are unique and the subject is important. Among the factors that von Mises conveniently overlooks are the political impossibility of curtailing consumption so drastically by reliance on fiscal policy alone, the fact that government competition with private industry for scarce materials would accelerate the inflation that is *inevitable* once a sizable portion of production is devoted to war purposes, that confiscatory taxation (probably including a capital levy) undermining the very foundations of capitalism would be required, that Draconian fiscal controls are themselves inconsistent with the "automatic" theory of the market and would undoubtedly require implementation through forced savings and direct exercise of the police power of the state to ensure compliance, and that even if it were prudent for the bourgeoisie to ignore the lessons of history and accept the advice of von Mises, the time required to enable the state to direct production through indirect controls would unquestionably be fatal.

THE TIME ELEMENT, ESPECIALLY, IS recognized by the authors of the only comprehensive analysis of production controls in the war economy *(Wartime Production Controls* by David Novick, Melvin Anshen and W. C. Truppner, Columbia University Press, 1949, p. 16):

In peace the major influence upon economic activity is profit. The ultimate measure of the desirability of undertaking certain industrial activities or carrying them out in certain ways is the anticipated effect of the final result on the individual enterprise's profit and loss statement. Since the peacetime economy is made up of a multitude of individual enterprises, it is important to each one, *but not to the nation*, whether its particular choice of policy or method is profitable or not. The classic justification for non-interference by government in business is that the *accidents* of individual choice result in the greatest possible production from the national resources. *In time of war, however, the nation cannot wait for each of these individual experiments to produce the desired result. An over-all control of economic activity must be substituted for individual planning under the profit motive.* And not only must the control agency make the industrial decisions; it must do its job without either the profit and loss test of the wisdom of its policies and the efficiency of its methods, or the time required to apply any other test. (Italics mine—T.N.V.)

In other words, when it is a question of *survival*, neither price nor profit can guide the allocation of resources. Nor, for that matter, can the state as a general rule be expected to operate in response to such motives. After flirting with the reasons for this fact for three pages, the authors finally come sufficiently close to hitting the nail on the head (p. 18): 'Because the effect of price is *random and non-selective*, in time of war price manipulation cannot be used as the major tool for directing the use of the nation's resources." (Italics mine—T.N.V.) It therefore follows that: *"As the volume of military requirements increases, the area of control must grow. Ultimately, in the total war economy there must be total industrial control."* (Italics mine—T.N.V.)

Not only is controlling production for specific objectives through the price mechanism like scattering seeds to the four winds to plant a kernel of wheat in a particular spot, but it places the various sections of the capitalist class in an untenable position with respect to their fellow capitalist competitors. As Novick *et al* put it, citing the experience of 1942, pp. 67-68: "Caught in the competitive forces of the free market, no single producer of refrigerators or passenger automobiles could contemplate closing his doors in the face of eager crowds of customers (and endangering the continuance of his carefully nurtured distributor organization) in order to prepare his production lines to make machine guns, tanks, guns, and airplane subassemblies. *Such decisions could be made only on an industry-wide basis, and this could be brought about swiftly only through government direction.*" (Italics mine—T.N.V.)

Moreover, in many cases, as previously mentioned, it would be impossible to induce the desired capital investment solely by appealing to the profit instincts of individual capitalists. As a matter of record, the Federal government financed in the neighborhood of $35 billion of industrial, military and housing facilities during World War II. Almost half of this total was for the creation of new manufacturing facilities, the vast majority of which private capital could not have undertaken even if it possessed the necessary accumulations of capital for the simple reason that, without substantial state aid, the prospects of profits would be far too remote. To be sure, many of these facilities were subsequently sold to private capital at a fraction of their cost, so that those whose products had peacetime uses could be operated by private industry at a profit. Nevertheless, the fact remains that exclusive reliance on the immediate profit motive to direct investment into desired channels during a major war (and even during a minor war as at present) would markedly reduce the *military* effectiveness of any industrialized nation.

The preeminent role played by state capital accumulations during World War II occurred, it must be emphasized, despite the huge aggregations of private capital that existed and which received the overwhelming portion of war contracts. "Analysis ... indicated that in the third quarter of 1942 the 100 largest company consumers of each basic metal used the following percentages of the metal consumed by all manufacturing companies: carbon steel, 49 per cent; alloy steel, 70 per cent; copper, 79 per cent; copper-base alloy, 66 per cent; and aluminum, 81 per cent. A combined listing (eliminating duplications) yielded a total of 391 different companies (approximately 2,000 plants). In the third quarter of 1942 these 391 companies used 56 per cent of the carbon steel consumed by all manufacturing companies; 75 per cent of the alloy steel; 82 per cent of copper; 71 per cent of copper-base alloy; and 85 per cent of aluminum. . . . The same 391 companies shipped more than three-fourths of the total dollar value of all direct military-type products." *(Wartime Production Controls,* p. 346.)

ASIDE FROM THE PROBLEM OF PROduction, which requires direct state controls, such as priorities, allocations and the over-riding *directive* power of the state, the state, representing the interests of the bourgeoisie *as a whole*, must try to keep the inflation within tolerable limits. Naturally, inflation is so managed as to place the main burden on the backs of the working classes and many individual capitalists amass huge and quick profits. Still, an unbridled inflation can interfere with production and disrupt the plans of the military and civilian state bureaucracies. Accordingly, state intervention is extended wherever necessary, without any objections from contemporary American financiers, further circumscribing the area within which private capital is permitted by its own state to function. An excellent example is the recent decision to make the government the sole importer of rubber and tin. As Wilson's first quarterly report states *(The New York Times,* April 2, 1951): "By designating Government agencies to act as exclusive importers of commodities, such as rubber and tin, and by working in international commodity committees to allocate scarce materials among free countries, we are helping to end the current scramble for these materials which has forced their prices unnecessarily high." The *international* aspects of the Permanent War Economy are yet another reason why increasing state intervention is mandatory for the American bourgeoisie as a matter of self-preservation, but we must leave to another article treatment of its implications.

We shall also leave for subsequent analysis consideration of the implications of the various techniques used to try to "freeze" the class struggle and of the increasingly obvious Bonapartist tendencies that may be discerned as a result of what amounts to an "interlocking directorate" between the military bureaucracy and big business.

The virtual guarantee of profits by the state is the *sine qua non* of increasing state intervention under the Permanent War Economy. The scandals in the letting of war contracts never seem to deter repetition of the most unsavory performances of the past, even when the cast of characters is changed. "By far the most important lesson," state the authors of *Wartime Production Controls* (p. 382), "is that the power to contract is the power to control."

While the very mechanism of price control, based on perpetuating a rate of profit representing an all-time modern historical peak, is balm for the wounds of the more individualistically-minded members of the bourgeoisie, at least the larger ones, the forces that constantly work toward a transformation of traditional capitalism proceed with a logic of their own. The Office of Price Stabilization issues various types of "mark-up" regulations that result in the fixing of price ceilings at levels guaranteed to maintain super-profits, but along comes its boss, Eric Johnston, Economic Stabilization Administrator, to announce (April 21, 1945) that "no industry will be permitted to raise prices if its dollar profits amount to 85 per cent of the average of its three best years during the 1946-49 period, inclusive."

Whether this policy will be implemented remains to be seen. And, as we have demonstrated, profits in 1946 to 1949 were so high that 85 per cent of this level hardly represents impoverishment. The significant point, however, is that it is difficult to foresee the limits of state intervention, assuming that the Permanent War Economy continues for an indefinite number of years. The promulgation of a profit-limiting policy, even if strictly confined to paper as was the case with O.P.A. during World War II, would horrify the rugged individualists of the pre-1941 era but today is a necessary genuflection to the exigencies of the class struggle.

The all-pervading character of state intervention, with its *modifications* of the nature and laws of capitalism, should not come as a surprise to any Marxist, for more than 70 years ago Engels wrote ("Origin of Family," p. 207): "But it (the state power of coercion) increases in the same ratio in which the class antagonisms become more pronounced, and in which neighboring states become larger and more populous. A conspicuous example is modern Europe, where the class struggles and wars of conquest have nursed the public power to such a size that it threatens to swallow the whole society and the state itself."

4. *Military-Economic Imperialism*

It is precisely in its international aspects that the new stage of capitalism, which we have termed the Permanent War Economy, reveals most clearly its true character as well as its inability to solve any of the fundamental problems of mankind. This is not due to any failure on the part of the American state to recognize the decisive importance of foreign economic policy, as witness both the Gray and Rockefeller reports within the past year, but rather to the historical impasse in which capitalism finds itself.

The capitalist world is not what it was in 1919 or in 1929. Even the depression-shrunk capitalist market of 1939 was relatively larger, and offered greater opportunities for profitable investment of American surplus capital, than the crisis-ridden world of today, confronted as it is with the unrelenting pressure exerted by Stalinist imperialism. Just as the domestic economy is increasingly dominated by the impact of war outlays, both direct and indirect, even more so is foreign policy in every ramification subordinated to military (euphoniously termed "security") considerations.

The tragedy of the situation, from the point of view of American imperialism, as we have previously pointed out (see especially "After Korea—What?" in the November-December 1950 issue of THE NEW INTERNATIONAL) and as the more far-sighted representatives of the bourgeoisie perceive, is that American imperialism cannot hope to defeat Stalinist imperialism by other than military means; and yet a military victory, even if it be achieved, threatens to destroy the very foundations upon which capitalism now rests. Not only would the military defeat of Stalinist imperialism remove the entire political base upon which the Permanent War Economy depends for justification of huge war outlays, without which the economy would collapse, but the very process of achieving a military solution of the mortal threat posed by the existence of an aggressive Stalinist imperialism is guaranteed to complete the political isolation of American imperialism, undermine its economic foundations and unleash socialist revolution on a world scale.

THE ARENA OF STRUGGLE between American and Stalinist imperialism is truly global, but it necessarily centers on Europe and Asia. There are sound economic reasons for increasing American preoccupation with these areas, aside from their obvious political importance as actual or potential foci of Third Campism. As Defense Mobilizer Charles E. Wilson graphically points out in his second quarterly report (*New York Times*, July 5, 1951):

> Potentially, the United States is the most powerful country in the world, but we cannot undertake to resist world communism without our allies. Neither we nor any other free nation can stand alone long without inviting encirclement and subjugation.
>
> If either of the two critical areas on the border of the communist world—Western Europe or Asia—were to be overrun by communism, the rest of the free world would be immensely weakened, not only in the morale that grows out of the solidarity of free countries but also in the economic and military strength that would be required to resist further aggression.
>
> Western Europe, for instance, has the greatest industrial concentration in the world outside of the United States. Its strategic location and military potential are key factors in the free world's defense against Soviet aggression.
>
> If Western Europe fell, the Soviet Union would gain control of almost 300 million people, including the largest pool of skilled manpower in the world. Its steel production would be increased by 55 million tons a year to 94 million tons, a total almost equal to our own production. Its coal production would jump to 950 million tons, compared to our 550 million. Electric energy in areas of Soviet domination would be increased from 130 to 350 billion kilowatt-hours, or almost up to our 400 billion.
>
> Raw materials from other areas of the free world are the lifeblood of industry in the United States and Western Europe. If the Kremlin overran Asia, it would boost its share of the world's oil reserves from 6 per cent to over half . . . and it would control virtually all of the world's natural rubber supply and vast quantities of other materials vital to rearmament.

And in manpower, in the long run apt to be the final arbiter, should Stalinism conquer Europe and Asia, American imperialism would be outnumbered by a ratio of at least four to one!

In the words of the Gray "Report to the President on Foreign Economic Policies" (*New York Times*, Nov. 13, 1950):

> We have now entered a new phase of foreign economic relations. The necessity for rapidly building defensive strength now confronts this nation and other free nations as well. This requires a shift in the use of our economic resources. It imposes new burdens on the gradually reviving economies of other nations. Our foreign economic policies must be adjusted to these new burdens. . . . Our own rearmament program will require us to import strategic raw materials in greater quantities than before.

Wilson, in his report previously cited, hints at the dependence of the American war economy on the minerals and raw materials of the "underdeveloped" areas: "For most of these metals [cobalt, columbium, molybdenum, nickel and tungsten and other alloying metals] we are dependent primarily on foreign sources, and defense requirements of other nations are also increasing."

It remains, however, for the Rockefeller report (Advisory Board on International Development, summarized in *The New York Times,* March 12, 1951) to place the problem of raw materials in proper perspective, and at the same time to reveal the weaknesses that have accumulated in the structure of American imperialism. The section is worth quoting in full:

> With raw material shortages developing rapidly, an immediate step-up in the production of key minerals is vital if we are to be able to meet the growing military demands without harsh civilian curtailments.
>
> *Two billion dollars energetically and strategically invested over the next few years could swell the outflow of vital materails from the underdeveloped regions by $1,000,000,000 a year.*
>
> This increased production can best be carried out under *private* auspices and wherever possible *local capital* within the country *should be encouraged to enter into partnership with United States investors in these projects.*
>
> Both immediate and longer-range peace needs warn of grave consequences unless such a development program is undertaken *promptly.* Although the United States accounts for more than *half* of the world's heavy industry production, it mines only about a *third* of the world's annual output of the *fifteen basic minerals.*
>
> Soviet shipments to the United States of chrome and manganese, so essential for steel-making, have already been choked back. The advisory board hopes that the people in the Soviet-controlled areas will be able to regain their freedom. However, today their trade is tightly controlled.
>
> *In the manganese and tungsten deposits of Latin America, Africa and Asia, the chrome production of Turkey and the Philippines, the timber stands of Brazil and Chile, the pulpwood of Labrador lie resources for developing substitute sources for materials which come from areas now dominated by the Soviets or most vulnerable to aggression.*
>
> Continued dependence of the free nations upon *imports and markets* of Soviet controlled areas weakens them in enforcing measures of economic defense.
>
> Peace, free institutions and human well-being can be assured only within the framework of an *expanding* world economy.
>
> With an expanding productive base it will become possible to increase individual productivity, raise living levels, increase international trade, meet the needs of the growing populations in the underdeveloped areas and perhaps even resettle peoples from the industrial areas under growing population pressure.
>
> Our objective should not be to *"mine and get out"* but to strive for a balanced ecoonmic development which will lay an enduring base for continued economic progress. *Workers should receive a full share in the benefits as quickly as possible.*
>
> *Improving the standard of living of the people of the underdeveloped areas is a definite strategic objective of the United States foreign policy.*
>
> The advisory board recommends the continued encouragement of the free labor unions in the underdeveloped areas.
>
> And that the International Labor Organization's recommendations as to fair labor standards be used as a guide for minimum labor standards in the underdeveloped areas. (Italics mine—T. N. V.)

Actually, coincident with the outbreak of the Korean war, American imperialism was aware of its vulnerability in strategic materials in the event of continuing "hot" and "cold" war with Stalinist imperialism and sought to remedy the situation. As Paul P. Kennedy puts it in *The New York Times* of August 5, 1951:

> The shift in emphasis from purely economic to economic-military aid within the foreign assistance program began to take vague shape as early as July 1950. At that time Mr. Foster, in something of a surprise move, advocated the diversion, in some countries, of E. C. A. matching funds toward military production facilities.

The Administration has requested $8.5 billion for fiscal 1952, of which $6.3 billion would be in military aid and $2.2 billion for continued economic aid. Economic assistance is now defined as "providing resources necessary for the support of adequate defense efforts and for the maintenance, during defense mobilization, of the country's general economic stability." In view of the strong outburst by that staunch defender of democracy and the Democratic Party, Senator Connally of Texas, that "the United States can't support the whole free world and remain solvent," it may be wondered why there should be any bourgeois opposition to a program geared exclusively to serving the military-economic needs of American imperialism. The answer lies in two facets of the program that have not been as well publicized as the immediate request for $8.5 billion.

It now appears that the $8.5 billion is intended as only part of a three-year $25 billion program. Mr. Kennedy, in the same article previously cited, states: "Both Secretary of State Dean Acheson and Secretary of Defense George C. Marshall have estimated that there is little possibility of building up the free world's fighting force on less than the $8.5 billion the first year, *which would be the first installment of $25 billion over a three-year spread.*" (Italics mine—T.N.V.) This is approximately twice as large as forecasts made earlier in the year by Administration spokesment. Admittedly a large portion of Military Assistance funds will go to Asia and the Pacific area.

Again quoting Mr. Kennedy: "The E.C.A. answer to Senator Connally's charge that the United States is spreading itself too thin by going into Asia and the Pacific area is that *production of materials is the greatest present problem. To get the materials available in Asia, the United States must give in exchange technical and economic assistance,* the agency contends." (Italics mine—T.N.V.)

THE INCREASING DEPENDENCE of American imperialism on foreign sources, chiefly present or former colonial areas, of key raw materials is attributable to many causes. Rapid exhaustion of natural resources, particularly iron ore and petroleum, within the United States, in response to the almost insatiable appetite of the Permanent War Economy for means of destruction and the ability to transport and operate them, is clearly a factor of considerable importance. Along with this has gone the sizable increase in production, coupled with tremendous accumulations of capital, analyzed in previous articles in this series. Historically, however, the decisive factor has been the utter failure of American imperialism to operate in the traditional finance capital manner.

This failure has not been due to any lack of desire on the part of American imperialism to export a sizable portion of its accumulations of private capital, thereby acquiring both markets and sources of primary materials in sufficient quantities to maintain the domestic level of profit and simultaneously to assure a steady flow of those raw materials essential to industry in war or peace. In part, this development has been due to the fateful consequences of the Permanent War Economy. The state, as demonstrated in the May-June 1951 issue of THE NEW INTERNATIONAL, guarantees profits for all practical purposes. The market incentives to export 10 per cent or more of both production and accumulated capital, traditional in the first three decades of the twentieth century, in order to maintain the profitability of industry as a whole, have atrophied to a surprising extent. The state now consumes the largest portion of accumulated capital. The state likewise undertakes by far the major responsibility for capital exports in the form of government loans and grants. The nature of state capital exports is such, with political considerations predominant, that markets and raw materials tend to be reduced in importance.

In largest part, however, the failure of American imperialism to perform according to the early textbooks is traceable to steady dwindling of the world capitalist market. How can American capitalists invest in Chinese tungsten mines, when China has come within the orbit of Stalinism and American capital has been forcefully driven out of China? Such examples of forcible exclusions of American imperialism from important sources of strategic materials could be multiplied many times since the advance of Stalinist imperialism in the post-World War II period.

Even more significant, however, is the fact that in the non-Stalinist world the climate for American investments has not been exactly favorable. Nationalization, confiscation, the threat of expropriation, and a host of other factors have combined to make private American capitalists extremely cautious about investing surplus capital in any foreign enterprise. This was not the case in the 1920's, when American net foreign investments increased about 100 per cent during the decade ending in 1931, at which time they reached a peak variously estimated at between $15 billion and $18 billion.

Considering the increases that have occurred in production, accumulation of capital, and the price level, a comparable figure for today would be in the neighborhood of $50 billion! Yet, despite the absence of data, it is clear that *American net foreign investments today are lower than they were in 1931.* What the precise figure is we cannot say, as recently the first such census since before the war was undertaken by the Department of Commerce and the results will not be available for another year. Nevertheless, according to *The New York Times* of May 31, 1951, which reported the news of the new census, "Sample data collected by the Department of Commerce in recent years indicate that the new census will show a value of more than $13,000,000,000." This figure represents direct investments as distinct from portfolio investments, but it is most unlikely that portfolio investments will be more than a few billion dollars, as bonds of foreign governments have not proved very attractive to American investors after the sad experiences of widespread defaults in the 1920's and 1930's.

The fact of the matter is that, from the point of view of American imperialism, American net foreign investments should be at least three times their present level. But this is a manifest impossibility, both politically and economically. Neither the capital nor the market is available, even if all the necessary incentives were present, which is obviously not the case.

It may be easier to grasp the magnitude of the problem that confronts American imperialism today if we first look at the figures representing the heyday of American imperialism and then compare them with the present situation. The following tabulation portrays the movement of American foreign investments, both gross and net, from 1924 to 1930.

UNITED STATES PRIVATE LONG-TERM FOREIGN INVESTMENTS 1924-1930
(Millions of Dollars)

Year	*Total of New Foreign Investment**	*Net New Long-term Capital Outflow†*
1924	$1,005	$ 680
1925	1,092	550
1926	1,272	821
1927	1,465	987
1928	1,577	1,310
1929	1,017	636
1930	1,069	364
Average	1,214	764

*Includes new foreign loans plus new net direct foreign investment.
†Total foreign investment minus amortization receipts and net sales of outstanding foreign securities.

The data are based on *The United States in the World Economy* (U. S. Department of Commerce, 1943) and taken from a paper, "Foreign Investment and American Employment," delivered by Randall Hinshaw of the Board of Governors of the Federal Reserve System before the 1946 annual meeting of the American Economics Association. During this seven-year period, gross foreign investment was never less than $1 billion in any one year, and averaged over $1.2 billion annually. The large proportion of portfolio investments that existed resulted in heavy amortization payments which, together with net sales by American investors of outstanding foreign securities, reduced the net foreign investment during this period to an average of $764 million. The sizable difference between gross and net foreign investment in 1930 is due to the onset of the world crisis and the large-scale liquidation by Americans of foreign investments which, in turn, aggravated the world crisis.

During the 1930's, the world-wide depression, plus the acts and threats of Nazi imperialism, caused a shrinkage of American foreign investments of about $4 billion. The Department of Commerce thus estimates total American foreign investments at the end of 1939 at $11,365,000,000. It is apparent that there was a further decline during the war and, beginning in 1946, a relatively modest increase.

While the estimates of American foreign investments in the postwar period are undoubtedly quite crude, we summarize below the movement of United States private long-term capital (from the June 1951 issue of *Survey of Current Business*) as indicative of the pitifully low levels to which traditional American imperialism has sunk:

OUTFLOW OF UNITED STATES PRIVATE LONG-TERM CAPITAL, 1948-1950
(Millions of Dollars)

Year	*Total Outflow of Private Long-Term Capital**	*Net Outflow of Private Long-Term Capital†*
1948	$1,557	$ 748
1949	1,566	796
1950	2,184	1,168
Average	1,769	904

*Includes total of direct foreign investments plus other investments, as loans, and is not comparable to the similar column in the previous table for 1924-1930, which is net of direct investments.
†This column is conceptually comparable to the similar column in the previous table.

While an average net foreign investment of $904 million appears to be significantly higher than the $764 million shown for the period 1924-1930, such a conclusion would be totally misleading. In the first place, the higher figure for 1950 is due entirely to a sharp bulge in the third quarter, amounting to $698 million, which is mostly in the form of portfolio investments, obviously a result of a sharp flight of capital from the dollar following the outbreak of the Korean war. That this was a temporary phenomenon, not possibly to be confused with any resurgence of traditional American imperialism, is shown by the sharp drop in the fourth quarter of 1950 to a mere $60 million of net foreign investment. Moreover, the preliminary figure for the first quarter of 1951 is only $212 million.

In other words, in dollar terms, net foreign investments of American capital are currently at the same level as twenty years ago. While this amount was consistent with the requirements of an expanding American imperialism at that time, today it is nothing but a source of frustration to the policy-makers among the bourgeoisie. For, these exports of private capital are taking place today when gross private domestic investment is averaging about $40 billion annually or more, and when net private capital formation runs from $25-30 billion a year. Net foreign investments at present should actually be at least four times their current level in order merely to match the performance of two decades ago. Another way of expressing the same thought is to equate the present volume of net foreign investments to about $200 million annually to permit direct comparison with the pre-depression period. It is therefore hardly surprising that American imperialism is having difficulties in obtaining adequate supplies of the key raw materials required to keep the economy operating at capacity.

Without doubt, exact information on the changing character and composition of American foreign investments, particularly direct investments, would throw even more light on the raw materials shortage. Unfortunately, it is not even possible to guess at the profound changes that must have taken place during and since the war. We would expect the trend that manifested itself prior to the war, when between 1929 and 1939 American investments in the Western Hemisphere increased from 59 per cent of the total to 70 per cent, to have continued. To be sure, the Western Hemisphere is not exactly barren of raw materials, but aside from a relatively few projects, in such countries as Venezuela and Bolivia, the emphasis has not been on the mining of strategic minerals. Thus, the disparity between the needs of the Permanent War Economy and the ability of American imperialists to deliver the necessary raw materials may be even greater than the dollar figures on foreign investments would indicate.

THE VACUUM CAUSED BY the paucity of private exports of capital has had to be filled by the state. That is the primary significance of the Marshall Plan and all other state foreign aid programs. The amounts have been quite sizable, averaging about $5 billion annually since the end of World War II, even according to the admittedly conservative figures of the Department of Commerce (as reported in the March, 1951, *Survey of Current Business*). The data, by country, are shown in the tabulation on the bottom of this page.

Gross foreign aid by the American government during this period totaled about $30.2 billion, but reverse grants and returns on grants plus principal collected on credits equaled $2.4 billion, bringing the net total to $27.8 billion. How much of the $9.2 billion of credits will be returned and how much will ultimately assume the status of outright gifts remains to be seen. It is interesting to note, however, that as of December 31, 1950, according to the Department of Commerce, "World War I indebtedness [owing to the United States government] amounted to $16,276 million, of which $4,842 million represented interest which was due and unpaid."

It is also pertinent to observe that preliminary figures for the first quarter of 1951 indicate that net foreign aid exceeded $1.1 billion, amounting at an annual rate to about $4.5 billion for the year. The probability is that the actual figure will exceed $5 billion, as the transition from economic to military aid is well under way.

With two-thirds of net grants and almost 90 per cent of net credits having gone to Marshall Plan countries, the result has been that these major allies being sought by American imperialism have received almost three-fourths of total net foreign aid extended since the end of World War II. Clearly, there is room for expansion of aid in many directions to hoped-for and deserving allies, actual or potential. Nor will the fact that almost one-half of total net foreign aid has been awarded to Britain, France and Germany escape the attention of those who appreciate the full significance of American military-economic strategy.

The policy of purchasing allies with government grants and credits in order better to contain expanding Stalinist imperialism did not originate with the Marshall Plan, which began operations in April 1948. As a matter of record, more than one-half of total net foreign aid ($14.5 billion out of the $27.8 billion total) was disbursed prior to the launching of the Marshall Plan. The Marshall Plan merely continued an already established policy by changing somewhat the form of aid and creating a new agency to administer it.

Some of the major categories that received forcing aid (on a gross basis) prior to April 1948 are:

	(Millions of Dollars)
Special British loan	$ 3,750
UNRRA, post-UNRRA, and interim aid	3,172
Civilian supplies	2,360
Export-Import Bank loans	2,087
Lend-Lease	1,968
Surplus property (incl. merchant ships)	1,234
TOTAL	$14,571

Thus, these six categories accounted for the overwhelming bulk of foreign aid prior to the E.C.A. program. They reveal quite clearly the unique rôle of "relief and rehabilitation" under the Permanent War Economy. It will be recalled that from 1946-1950 (see "Basic Characteristics of the Permanent War Economy" in January-February, 1951, issue of THE NEW INTERNATIONAL) indirect war outlays played a crucial rôle in maintaining the ratio of war outlays to total output at the 10 per cent level. Virtually equal in magnitude to direct war outlays, indirect war outlays were indispensable in maintaining the Permanent War Economy at a successful rate. And expenditures for relief and rehabilitation averaged about one-third of total indirect war outlays during this period. As a matter of fact, there is good evidence to believe that if proper valuation were given to Army-administered supplies, especially in Germ-

FOREIGN AID BY COUNTRY, July 1, 1945 Through December 31, 1950
(Millions of Dollars)

Country	*Net Grants**	*Net Credits†*	*Net Foreign Aid*
Belgium-Luxembourg	$ 509	$ 174	$ 683
Britain	1,523	4,487	6,010
France	1,873	2,037	3,910
Germany	3,026	67	3,093
Greece	1,100	98	1,198
Italy	1,689	357	2,046
Netherlands	549	381	930
Turkey	166	82	248
Other ERP Countries	1,837	327	2,164
ERP SUB-TOTAL	12,272	8,010	20,282
Other Europe	1,088	451	1,539
American Republics	135	219	354
China-Formosa	1,567	116	1,683
Japan	1,706	14	1,720
Korea	333	21	354
Philippines	655	100	755
All Other Countries	851	265	1,116
GRAND TOTAL	$18,607	$9,196	$27,803

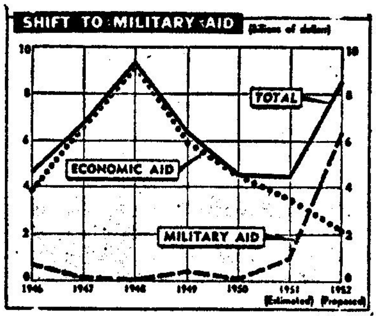
*Assistance that takes the form of an outright gift for which no payment is expected, or which at most involves an obligation on the part of the receiver to extend reciprocal aid to the U. S. or other countries.

†Assistance under an agreement that calls for ultimate repayment.

any and Japan, the rôle of relief and rehabilitation would be even greater than the figures indicate.

Naturally, a large portion of the billions of dollars spent for relief and rehabilitation fulfilled humanitarian purposes. Nor is it possible or necessary to assess the motives that animated Washington at this time. The decisive fact is that relief and rehabilitation expenditures accomplished what private export of capital could not. The state began to acquire a major interest in foreign economic programs, as well as to relieve any pressure that might develop due to the rapid accumulation of capital. If, in the process, recipients of state foreign aid were "persuaded" to grant American imperialism military bases and to pursue various political and economic policies desired by Washington, so much the better. The *quid pro quo* generally present in American foreign aid programs became even more obvious with the launching of the Marshall Plan. Objectively, therefore, state foreign aid has served to fill the void left by the failure of private capital to function in a traditional imperialist manner and has served to bolster the political program of American imperialism.

ADMITTED MILITARY AID is now rapidly supplanting economic aid. In reality, of course, the entire foreign aid program directly or indirectly contributes to the grand strategy of American military policy. In this respect, state intervention in the foreign economic field parallels, and even leads, state intervention in the domestic economy, as increasingly a higher proportion of state expenditures are for "defense" purposes. While it is true that the program officially labeled "Mutual Defense Assistance Program," apparently to be called by Congress "Mutual Security Program," spent the $516 million included in the total foreign aid analyzed above in the year 1950, it would be a mistake to conclude that admitted military aid occurred only during the past year. For example, there is the so-called Greek-Turkish aid program, which by the end of 1950 had disbursed some $656 million. Of this amount, $165 million was spent prior to the launching of the Marshall Plan, $258 million during the last nine months of 1948, $172 million in 1949, and $61 million in 1950. That this program has been overwhelmingly military in character can hardly be denied. Other programs, such as China, smaller in monetary cost, could be mentioned. As the chart shows, even on the official definition, there has always been some military aid since the end of World War II. Through the first quarter of 1951, military foreign aid has admittedly reached $2 billion. In reality, of course, the figure has been much higher, and now openly exceeds so-called foreign economic aid.



From the New York Times, Aug. 5, 1951

By 1952, admitted military foreign aid is expected to account for three-fourths of total foreign aid. This is without half a billion dollars for overseas bases, included in the military construction program. Officially labeled economic foreign aid, which reached a peak exceeding $8 billion in 1948, and has been averaging about $5 billion annually, will decline to an estimated $2 billion. On this basis, even a recalcitrant Congress may be expected to continue to vote for these sizable outlays without too much difficulty. The possibilities of further increasing state foreign aid through pouring dollars into the bottomless pit of "mutual security" are clearly almost without limit.

Increasing war outlays have no lack of justifications from the apologists for and representatives of the bourgeoisie. For sheer brazenness, however, we doubt that the reasons attributed to E.C.A. administrator Foster as justifying the shift from economic to military aid can be equaled.

> The arguments forwarded by the administrator at that time [July 1950, as reported by Mr. Kennedy in the aforementioned dispatch to the *New York Times*] have become more elaborate in proportion to increasing international tension, but *basically they are the same arguments now being posed.* These are:
> *(1) Most of the Marshall Plan participating countries are now far enough advanced economically to direct their attention from internal problems to those of possible aggression.*
> *(2) An economy that has been restored must progress in the assurance of protective strength.* (Italics mine—T. N. V.)

While comment would be entirely superfluous, under this line of reasoning economic aid would necessarily have to be a prelude to military aid. American imperialism has no choice, nor does it grant any choice to its satellites. The slogan, publicly and privately, becomes: "Join our military camp, or no aid." While Washington is unduly sensitive to the term, here is a classic expression of imperialist coercion, albeit with new motives and new methods, but with the same tragic results of war, misery and starvation for the masses of humanity.

As we have previously observed, the Permanent War Economy becomes increasingly international in scope, bringing within the orbit of American imperialism every industry and population as yet outside of the orbit of Stalinist imperialism. A detailed analysis of the increase in the ratio of war outlays to total production in England, France and the rest of the non-Stalinist world is unnecessary, nor does space permit. It suffices to point out the rapid *rate* of increase in the "defense" budgets of the North Atlantic Treaty powers in 1951 as compared with 1950. These increases, according to the *New York Times* of May 27, 1951, are: Norway, 117 per cent; Denmark, 67 per cent; United Kingdom, 53 per cent; Italy, 53 per cent; France, 45 per cent; and the Benelux countries, 39 per cent. Nor are the bases from which these increasing military expenditures start entirely negligible in terms of the proportion of total output already devoted to means of destruction. The Wilson report, for example, states: "Our European allies have increased their planned rate of defense expenditures from approximately $4.5 billion a year prior to the Korean conflict to almost $8 billion in 1951. Higher spending rates are projected for subsequent periods."

It is no wonder, therefore, that Western European capitalism, operating on such an unstable foundation compared with the United States, has already experienced an inflation exceeding the American during the past year. The social consequences in every country, particularly Britain, are profound, but outside the scope of our analysis. Moreover, because of the dominant position of America in the world's markets, especially in the present scramble for critical raw materials, the economies of every non-Stalinist country, even those with considerable nationalization and far-reaching state controls, are at the mercy of every whim and vagary of Washington, planned or capricious. Under the circumstances, the low state of American popularity throughout the non-Stalinist world should not be a surprise to the American bourgeoisie.

THE IMPACT OF THIS NEW PHASE OF American imperialism is far broader in its foreign implications than would appear merely from an analysis of the increase in armaments budgets throughout the world, or from the changes in national economies resulting from inflation and steadily increasing state intervention. Precisely because the new method of sustaining American imperialism is geared to the needs of American military strategy, the ultimate consequences may be so far-reaching as to destroy the remaining foundations of capitalism. To combat a Stalinist imperialism operating from the base of bureaucratic collectivism, with its ability to subordinate all its satellite economies to the demands of Moscow and to standardize military equipment, procurement and transportation, requires a more or less comparable "internationalization of war preparations" on the part of American imperialism and its more indispensable allies in Western Europe.

It may still be possible in some circles to question the relative superiority of a nationalized economy over competitive capitalism in ordinary matters of production and distribution, but in the conduct of modern war, and therefore of war preparations, even a bureaucratic, brutal and horribly inefficient Stalinism is incomparably more successful in achieving the necessary coördination and integration of its war-making potential, due to its collectivist base, than the most highly developed capitalist nations could ever hope to achieve without vast structural changes. Under the impact of common financing, centralized administration cutting across national boundaries, standardization of armaments, and pooling of production resources—all of which are indispensable if American imperialism has any hopes of defending Western Europe against Stalinism—national sovereignty must be subordinated to the superior power, economic and military, and wisdom emanating from Washington and its representatives, especially Eisenhower.

A remarkable article on this entire problem, by its chief European economic reporter, Michael L. Hoffman, appeared in the *New York Times* of Aug. 5, 1951. Its analytical portion is worth reproducing in full:

> Nobody can foresee with anything like exactness just how this [a common military budget and a common military procurement administration] would affect the economy of Europe. But European and United States economists have considered the matter fairly carefully already, and the following are some of the consequences that can now be predicted with some degree of confidence.
>
> For practical purposes, *national parliaments would lose control of from one-third to nearly half of their own national budgets.* They could complain, or refuse to vote taxes, or make all kinds of other trouble, but *once in the European army a government would pretty much have to accept its defense burden as given.*
>
> It would be quite inconceivable that this degree of rigidity could be introduced into national government budgets without bringing in its train a *far greater degree of coordination in budgeting generally than exists now.*
>
> Every participating country would acquire suddenly an *entirely new kind of interest in its neighbors' prosperity.* It is true now, but not very deeply burned into the consciousness of most people, that Germany cannot thrive without France, France without Italy, and so on. This would become obvious if the taxpayers saw their burdens, mounting because some other country could not support a larger share.
>
> Discussions of trade and monetary policy would take place in an entirely new atmosphere, in which everybody would be forced to keep an eye on Europe a a whole.
>
> *It could be expected, at the very least, that the duplication and misdirection of investment caused by uncoordinated national armament programs would be reduced greatly. The range of industry affected by military procurement under modern conditions is so great that a unified procurement service for a European army would become the outstanding "market" for a large number of European industries.*
>
> *It has been Europe's experience for ages that the growth of armed forces under the control of governments with sovereignty over larger and larger territorial units generally has been followed by the establishment of currencies, commercial law and other social institutions on a larger and larger territorial basis.*
>
> *There is nothing inevitable about this progression,* but those European and United States leaders and officials who have been convinced of the necessity for getting rid of *national barriers to economic expansion* in Western Europe like to believe that the "law" will work once again. (Italics mine—T. N. V.)

In reality, of course, such integration and coördination as may be achieved in Western Europe can only occur under the stimulus, organization and direction of American imperialism. European capitalism is long since incapable of saving itself. Were it not for the aid and support received from the American bourgeoisie, the European bourgeoisie would have abdicated or been overthrown. Far-fetched and alarming as it may seem, the Kautskyian theory of "ultra-imperialism" may yet see its realization, in the event the Third Camp fails to intervene actively in the course of history before it is too late, in the form of world hegemony being achieved by either American or Stalinist imperialism.

The rôle of military aid in the new phase of American imperialist development will be even more pervasive and all-embracing than the rôle of relief and rehabilitation. With overriding priority over materials, production facilities and manpower, military aid appears to be the vehicle that will permit American imperialism to complete its task of subjugating the economies of the lesser capitalist imperialist powers, of controlling their basic international policies, of influencing their domestic policies, and, above all, of dominating their colonial markets and trade. Naturally, there will be struggles, intense social conflicts, in many countries where the ability and will to resist subordination of legitimate class and national interests to Washington remains. Stalinism will naturally seek to exploit these contradictions wherever they appear. What the outcome of these complex stresses and strains will be may well determine the course of history for decades. Of one thing, however, we may be absolutely certain: the restoration of traditional American finance capital imperialism to sound health is excluded.

THE NEW POLICY OF AMERICAN imperialism, judging by its most eminent official and private spokesmen, is heartily in favor of the bloodless conquest of Europe and its empires, yet it seeks to accomplish this strategic aim by emphasizing the old, traditional methods, while paying lip-service to the new methods imposed by the exigencies of the times. The objective of European political union, with implied American control, has been voiced by innumerable leaders of the American bourgeoisie. Notable among these has been Mr. R. C. Leffingwell, head of the House of Morgan, who in an article in *Foreign Affairs* for January 1950, entitled "Devaluation and European Recovery," states: "Monetary union without political union is impossible. There cannot be a common currency without common sovereignty and a common parliament and common taxes and common expenditures."

Or, in the more oblique language of the Gray report (recommendation 21): "The United States should help to strengthen appropriate international and regional organizations and to increase the scope of their activities. It should be prepared, in so far as practicable, to support their activities as the best method of achieving the economic and security objectives which it shares with other free nations."

In the area of investment policy, the key to imperialist activity and perspectives, the language of publicly enunciated foreign economic policy more clearly parallels that of private sources. Leffingwell, for example, in the article cited above, comments on the fundamental contradiction of American imperialism as a creditor nation with a large favorable balance of trade, as follows:

> As a creditor nation, our tariffs should be for revenue only, except where needed to protect industries essential for the national defense. . . . What we need to do is to increase our imports more than we increase our exports. . . . Private Ameri-

can foreign investment would help. Indeed, the fundamental trade disequilibrium is so great that the international accounts can scarcely be balanced without great American investment overseas, both public and private. . . . If American foreign investment is to be encouraged, our government and foreign governments must reverse their policies and give firm assurance to American investors that their investments will be respected and protected, and that they may hope to profit by them, and collect their profits.

Almost as forthright is the Gray report:

Private investment should be considered as the most desirable means of providing capital and its scope should be widened as far as possible. . . . Further study should be given to the desirability and possibility of promoting private investment through tax incentives, in areas where economic development will promote mutual interests, but where political uncertainty now handicaps United States private investment.

Two specific steps are advocated for immediate action to stimulate private investment:

"(a) The negotiations of investment treaties to encourage private investment should be expedited; (b) The bill to authorize government guaranties of private investment against the risks of non-convertibility and expropriation should be enacted as a worthwhile experiment."

Since all this encouragement of private investment may be expected to remain confined to paper, the Gray report also places "heavy reliance" on public lending, and seeks to "make sure that our own house is in order—that we have eliminated unnecessary barriers to imports, and that our policies in such fields as agriculture and shipping are so adjusted that they do not impose undue burdens on world trade."

Here, again, the public spokesman must be more circumspect than the private. Says the Gray report: "With respect to our own agricultural policies we should, over the long-run, attempt to modify our price support system, and our methods of surplus disposal and accumulation of stocks, in ways which, while consistent with domestic objectives, will be helpful to our foreign relations." Such doubletalk, together with the limitation proposed for shipping subsidies, is, of course, aimed at achieving the same objective as Leffingwell: abandonment of the American farmer so that industry may resume its customary exports of commodities and private captial.

AMERICAN EXPORTS AND MEANS OF FINANCING, 1948-1950
(Millions of Dollars)

Item	*1948*	*1949*	*1950*
Exports of goods and services	$16,967	$15,974	$14,425
Means of Financing			
Foreign sources:			
United States imports of goods and services	10,268	9,603	12,128
Liquidation of gold and dollar assets	780	—60	—3,645
Dollar disbursements (net) by:			
International Monetary Fund	203	99	—20
International Bank	176	38	37
United States Government:			
Grants and other unilateral transfers (net)	4,157	5,321	4,120
Long and short-term loans (net)	886	647	164
United States private sources:			
Remittances (net)	678	522	481
Long and short-term capital (net)	856	589	1,316
Errors and omissions	—1,037	—785	—156

EVER SINCE 1917, WHEN THE UNITED States became a creditor nation, the basic contradiction inherent in a finance capital imperialist nation exporting private capital while simultaneously maintaining a substantial export surplus in commodities and services has become more acute. The essence of the problem is clearly the necessity to make it possible for recipients of American private capital to pay the carrying charges, to remit the profits, and ultimately to repay the loans and investments. In the 1920s the problem was solved through large-scale remittances abroad of recent immigrants to the United States, coupled with ultimate repudiation of a substantial portion of American-held foreign securities.

In the long run, however, *if American imperialism is to function in the traditional manner,* the United States must import more than it exports; i.e., it must acquire an unfavorable balance of trade sufficient to cover the tribute exacted by American capital. To be sure, remittances of gold temporarily help to achieve the necessary balance, but the United States has long since acquired the overwhelming portion of the world's gold supply. Foreign countries, fundamentally, can only earn the dollars they need by carrying the majority of trade in their own ships, by inducing American tourists to spend a sizable amount of dollars abroad, and by exporting more commodities to the United States than they import from the United States. Since, with relatively few exceptions, foreign countries cannot compete with American manufacturers, they are reduced to exporting to the United States raw materials, minerals and farm products.

When England was confronted with a similar problem in 1847, she repealed the "Corn Laws," permitting foreign wheat and other agricultural commodities to be imported into England without tariffs. The result was the abandonment of British agriculture, accompanied by a gigantic increase in industrial output. Perhaps, if the Farm Bloc were not so strong, American imperialism might have been able to achieve a classic solution of its crucial imperialist contradiction. It is, however, politically impossible and historically too late to solve the problem in this manner. The experience of the last few years indicates the only way in which American imperialism can hope to continue to maintain an export level between five and ten per cent of total output, as the following data (from the June, 1951, *Survey of Current Business)* show (see table ~~on p. 245).~~ above.

American exports of almost $17 billion in 1948, almost $16 billion in 1949, and more than $14.4 billion in 1950 amounted to 7 per cent, 6.8 per cent, and 5.6 per cent, respectively, of net national product. This is relatively less than the ratio that "normally" prevails with the exception of years of deep depression. Its importance cannot be measured simply by reference to the absolute amounts involved. For many industries and, by and large, for the economy as a whole, the profitability of the remaining 90-95 per cent of output that is sold on the domestic market depends on maintenance of these exports. It is not only that exports make possible indispensable imports, but that surplus value is created at every stage in the process of production. Elimination of all exports, aside from certain obviously serious political and economic consequences, would not merely reduce profits of certain industries, possibly sending them into bankruptcy, but would immediately lower drastically the rate and mass of profit for al lindustry, and with cumulative effects.

Even though imports have been at the $10 billion level, the visible surplus in the balance of payments for commodities and services was $6.7 billion in 1948, almost $6.4 billion in 1949, and $2.3 billion in 1950. The narrowing of the gap in 1950 is due more to the rise in imports as the scramble for raw materials developed after the outbreak of the Korean war than to the fall in exports. It was more than offset, however, by the flight of gold and dollars from America as "hot" money sought the greater safety of haven in Uruguay and other places.

It is clear that American government funds have been decisive in maintaining exports. Obviously, without state foreign aid, exports would have been some four or five billion dollars less, which in turn would have had a severely depressing effect on both the American and world economies. It is equally evident that if you give the purchaser the means with which to buy what you have to sell, you can continue to do business as long as you are able to maintain your customer's purchasing power. This is equivalent to a perpetual subsidy in the present case by the American state on the order of $5 billion annually. How long American imperialism can maintain foreign subsidies of this magnitude, now to be increased to a level of $8 billion as foreign aid shifts from predominantly economic to military commodities, is uncertain, but there is a limit and there will be a day of reckoning.

An increase of American foreign investments "from the present $1,000,000,000 a year to a minimum of $2,000,000,000 a year," as called for by the Rockefeller report would not begin to solve the problem of the dollar gap. Moreover, as American foreign investments accumulated over the years, assuming that any such recrudescence of traditional American imperialism was possible, the interest and dividend bill would likewise increase, and foreign countries would eventually be even shorter of dollars than at present. Let us not forget that the returns of capital invested abroad historically are much greater than the domestic rate of profit. That is one of the chief attractions of finance capital imperialism. An example of current profitability is provided by the report "that the Prince of the Kuwait Sheikdom has rejected a new offer of the Anglo-American-owned Kuwait Oil Co. to boost his oil royalties. . . . The offer of the company was to up the royalties from four and a half shillings to 25 shillings (63 cents to $3.50 a ton)." (*World Telegram and Sun*, Aug. 6, 1951.) In other words, to forestall any desire to emulate the nationalization action of Iran, the Kuwait Oil Co. is able to offer an increase of 450 per cent in the royalty paid. The Prince of Kuwait is said to have rejected this offer and to be holding out for a 50-50 split of profits!

Barring a sharp rise in privately-financed imports, which is virtually impossible, American imperialism is forced to place its main reliance in achieving practically every objective of foreign economic policy on continued state aid. Private foreign trade and investments, as in the case of domestic profits, are in effect guaranteed by the state, and the state itself must make good the failure of private investment through permanent gifts and loans.

IN PROMULGATING THE POINT FOUR program on Sept. 8, 1950, Truman declared: "Communist propaganda holds that the free nations are incapable of providing a decent standard of living for the millions of people in the underdeveloped areas of the earth. The Point Four program will be one of our principal ways of demonstrating the complete falsity of that charge." The mountain has labored and brought forth a mouse. Thirty-four and a half million dollars was appropriated for the first year. The appropriation for the second year will be considerably less than the $500,000,000 recommended by the Gray and Rockefeller reports. Inasmuch as the Gray report was devoted to foreign economic policy as a whole, while the Rockefeller report concentrates on development, it is to the Rockefeller report that we must turn for an authoritative statement of American hopes and policies in this field.

"The people who live in what have been termed the underdeveloped areas of Latin America, Africa, the Middle East, Asia and Oceania need our help and we need theirs," states the Rockefeller report. Point Four is thus not entirely a one-sided and exclusively humanitarian venture. "Considered from the point of view of the United States on these regions, *it must be emphasized that we get from them 73 per cent of the strategic and critical materials we import—tin, tungsten, chrome, manganese, lead, zinc, copper—without which many of our most vital industries could not operate.*" (Italics mine—T. N. V.)

The major recommendation is, consequently, an expansion of Point Four:

> A balanced program of economic development calls for simultaneous progress in three broad fields of economic endeavor. Along with the production of goods—which is a job for private enterprise—must go public works, such as roads, railways, harbors and irrigation works; also improvement in the basic services, like public health and sanitation, and training people in basic skills. *The financing of both the public works and these basic services are largely governmental functions.*

> The Gray Report on United States foreign economic policy, submitted to the president last year, recommended that United States economic assistance to the underdeveloped areas be increased "up to about 500 million dollars a year for several years, apart from emergency requirements arising from military action." The advisory board believes that the expenditure of $500,000,000 in these areas is justified. (Italics mine—T.N.V.)

How an expenditure of 50 cents per person annually can have any material effect in raising living standards in the colonial areas is carefully avoided, as there is opposition within the bourgeoisie even to this pathetically small amount. Consider the following from the August 1951 Monthly Letter of the National City Bank: "The difficulty with development is not lack of money, but such factors as lack of skills to use modern machinery, political instability, prejudice against foreigners, onerous taxation and arbitrary limits on business profits. It is doubtful if the American taxpayer should venture, through the Export-Import Bank, where neither the private capitalist nor the World Bank has dared to tread."

Earlier, we pointed out that the Rockefeller report, like the Gray report, places its main reliance on stimulating private investment. While "a full kit of financial tools" is recommended, as usual it is the matter of tax incentives that is most revealing:

> Adoption of the principle that income from business establishments located abroad be taxed only in the country where the income is earned and should therefore be wholly free of United States tax.

> To avoid any drop in tax revenue during the emergency we recommend that only new investment abroad be freed of United States tax during the present emergency. As soon as the emergency is lifted the exemption should be extended to future income from investment abroad regardless of when the investment was made.

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5. Some Significant Trends

Sacred to the operation of traditional capitalism is the ability of the individual capitalist to decide what and how much to produce, as well as the prices at which he will sell his commodities. Under the Permanent War Economy, however, the state assumes *directive* powers, through various types of controls, that largely supersede the power of the individual capitalist. The bourgeois is no longer undisputed master of his own house. He continues to produce commodities and to accumulate surplus values, in greater volume than ever before as we have previously shown, but only as a result of large-scale state intervention.

The ability of the state to direct the economy is basic to the successful operation of the Permanent War Economy. As was shown in Part III, "Increasing State Intervention," May-June, 1951, issue of THE NEW INTERNATIONAL, the entry of American capitalism into the permanent crisis of world capitalism with the Great Depression of the 1930's marked the beginning of the shift of power from the individual capitalist to the state apparatus, representing the interests of the bourgeoisie as a class. While the *character* of state intervention in depression differs from state intervention under the Permanent War Economy, both periods require large-scale state bureaucracies. To this extent, as well as the psychological preparation for increasing state intervention of both the bourgeoisie and the public at large, depression may be considered a necessary prerequisite to the war economy.

The New Deal served as a school for the development of numerous technical experts in the art of managing state monopoly capitalism and in the equally important area of planning the increase in state revenues required to sustain the expanding state bureaucracy. In 1929, for example, the number of Federal civilian employees was 227,000. In 1933, the figure was only 306,000. It almost doubled by 1939, reaching 571,000. This provided a solid foundation for the expansion that took place under the Permanent War Economy, described in Part III. Some of the key personnel were trained and, more importantly, the practice was begun of borrowing industrial and financial leaders from private industry to administer the various state programs. The New Deal, in short, was an essential framework for the development of the Permanent War Economy.

That a very significant shift has occurred in the rôle of the state in the economy is officially recognized in the 1951 edition of the National Income Supplement to the *Survey of Current Business*, published by the Department of Commerce. "The most notable change since 1929 in the use of the Nation's output," states this publication, "is a shift from private to government use. In terms of the current dollar estimates of gross national product, government purchases of goods and services, which absorbed 8 per cent of the gross national product in 1929, took 15 per cent in 1950. Personal consumption expenditures, on the other hand, dropped from 76 per cent of the total in 1929 to 68½ per cent last year." This profound shift can be seen from the summary tabulation boxed above.

It will be seen that the changes in the composition of gross national product were due in considerable measure to differential price movements. Nevertheless, on a constant dollar basis, the rôle of the state increased almost 50 per cent and occurred at the expense of both consumer outlay and capital accumulation. Actually, a better picture would emerge if the distribution were in terms of net national product, as has been our previous practice. The rôle of the state in 1950, according to these figures, is somewhat less than we estimated, primarily because our 1950 estimates understated the degree of inflation and the real increase in production that actually took place. We estimated gross national product at $278 billion, while the official figure is now revealed as $283 billion. None of these minor discrepancies in any way invalidates our analysis.

THE REAL SIGNIFICANCE OF THE change that has occurred is carefully overlooked by the Commerce experts' desire to relate "comparable" years. The history of the last 22 years, despite serious inadequacies in the underlying data, is graphically portrayed by the changing relationship of government purchases of goods and services to total gross national product. (See box [redacted] below).

It can be seen that the depression of the 1930's was accompanied by the first great advance in state intervention in the economy. While the proportion of total output, as measured by gross national product, that went to government purchases of goods and

PERCENTAGE DISTRIBUTION OF GROSS NATIONAL PRODUCT

	1929	*1950*
In billions of current dollars:		
Personal consumption expenditures	75.9%	68.5%
Gross private domestic investment	15.2	17.3
Net foreign investment	.7	—.8
Government purchases of goods and services	8.2	15.0
TOTAL	100.0	100.0
In billions of 1939 dollars:		
Personal consumption expenditures	72.5	70.4
Gross private domestic investment	17.4	16.1
Net foreign investment	.9	.0
Government purchases of goods and services	9.2	13.5
TOTAL	100.0	100.0

RATIO OF GOVERNMENT PURCHASES OF GOODS AND SERVICES TO GROSS NATIONAL PRODUCT, 1929-1950

	*Total**	*Federal*	*State and Local*
1929	8.2%	1.3%	6.9%
1930	10.1	1.6	8.5
1931	12.1	2.0	10.1
1932	13.8	2.5	11.3
1933	14.3	3.6	10.7
1934	15.0	4.6	10.4
1935	13.7	4.1	9.6
1936	14.2	5.8	8.4
1937	12.8	5.0	7.8
1938	15.1	6.2	8.8
1939	14.3	5.6	8.7
1940	13.7	6.1	7.7
1941	19.5	13.4	6.2
1942	37.0	32.2	4.8
1943	45.6	41.8	3.8
1944	45.2	41.7	3.5
1945	38.5	34.8	3.7
1946	14.6	9.9	4.7
1947	12.3	6.8	5.5
1948	14.1	8.1	6.0
1949	16.9	9.9	7.0
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It is clear that American government funds have been decisive in maintaining exports. Obviously, without state foreign aid, exports would have been some four or five billion dollars less, which in turn would have had a severely depressing effect on both the American and world economies. It is equally evident that if you give the purchaser the means with which to buy what you have to sell, you can continue to do business as long as you are able to maintain your customer's purchasing power. This is equivalent to a perpetual subsidy in the present case by the American state on the order of $5 billion annually. How long American imperialism can maintain foreign subsidies of this magnitude, now to be increased to a level of $8 billion as foreign aid shifts from predominantly economic to military commodities, is uncertain, but there is a limit and there will be a day of reckoning.

An increase of American foreign investments "from the present $1,000,000,000 a year to a minimum of $2,000,000,000 a year," as called for by the Rockefeller report would not begin to solve the problem of the dollar gap. Moreover, as American foreign investments accumulated over the years, assuming that any such recrudescence of traditional American imperialism was possible, the interest and dividend bill would likewise increase, and foreign countries would eventually be even shorter of dollars than at present. Let us not forget that the returns of capital invested abroad historically are much greater than the domestic rate of profit. That is one of the chief attractions of finance capital imperialism. An example of current profitability is provided by the report "that the Prince of the Kuwait Sheikdom has rejected a new offer of the Anglo-American-owned Kuwait Oil Co. to boost his oil royalties. . . . The offer of the company was to up the royalties from four and a half shillings to 25 shillings (63 cents to $3.50 a ton)." (*World Telegram and Sun*, Aug. 6, 1951.) In other words, to forestall any desire to emulate the nationalization action of Iran, the Kuwait Oil Co. is able to offer an increase of 450 per cent in the royalty paid. The Prince of Kuwait is said to have rejected this offer and to be holding out for a 50-50 split of profits!

Barring a sharp rise in privately-financed imports, which is virtually impossible, American imperialism is forced to place its main reliance in achieving practically every objective of foreign economic policy on continued state aid. Private foreign trade and investments, as in the case of domestic profits, are in effect guaranteed by the state, and the state itself must make good the failure of private investment through permanent gifts and loans.

IN PROMULGATING THE POINT FOUR program on Sept. 8, 1950, Truman declared: "Communist propaganda holds that the free nations are incapable of providing a decent standard of living for the millions of people in the underdeveloped areas of the earth. The Point Four program will be one of our principal ways of demonstrating the complete falsity of that charge." The mountain has labored and brought forth a mouse. Thirty-four and a half million dollars was appropriated for the first year. The appropriation for the second year will be considerably less than the $500,000,000 recommended by the Gray and Rockefeller reports. Inasmuch as the Gray report was devoted to foreign economic policy as a whole, while the Rockefeller report concentrates on development, it is to the Rockefeller report that we must turn for an authoritative statement of American hopes and policies in this field.

"The people who live in what have been termed the underdeveloped areas of Latin America, Africa, the Middle East, Asia and Oceania need our help and we need theirs," states the Rockefeller report. Point Four is thus not entirely a one-sided and exclusively humanitarian venture. "Considered from the point of view of the strategic dependence of the United States on these regions, *it must be emphasized that we get from them 73 per cent of the strategic and critical materials we import—tin, tungsten, chrome, manganese, lead, zinc, copper —without which many of our most vital industries could not operate.*" (Italics mine—T. N. V.)

The major recommendation is, consequently, an expansion of Point Four:

> A balanced program of economic development calls for simultaneous progress in three broad fields of economic endeavor. Along with the production of goods—which is a job for private enterprise—must go public works, such as roads, railways, harbors and irrigation works; also improvement in the basic services, like public health and sanitation, and training people in basic skills. *The financing of both the public works and these basic services are largely governmental functions.*
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How an expenditure of 50 cents per person annually can have any material effect in raising living standards in the colonial areas is carefully avoided, as there is opposition within the bourgeoisie even to this pathetically small amount. Consider the following from the August 1951 Monthly Letter of the National City Bank: "The difficulty with development is not lack of money, but such factors as lack of skills to use modern machinery, political instability, prejudice against foreigners, onerous taxation and arbitrary limits on business profits. It is doubtful if the American taxpayer should venture, through the Export-Import Bank, where neither the private capitalist nor the World Bank has dared to tread."

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It may be anticipated that such tax concessions will not be very popular. Together, however, with the guaranties offered in the Gray report, it is clear that the bourgeoisie is desperately seeking every expedient to restore its former position. The sentiments underlying the humanitarian side of Point Four should not be minimized. They correspond to a vast yearning by the majority of the human race for emancipation from misery, starvation and exploitation. A socialist America could make real strides in helping the underdeveloped areas rapidly to overcome the backwardness imposed by centuries of feudal and imperialist exploitation. But a capitalist America can do little more than produce reports and a pittance of genuine aid.

can foreign investment would help. Indeed, the fundamental trade disequilibrium is so great that the international accounts can scarcely be balanced without great American investment overseas, both public and private. . . . If American foreign investment is to be encouraged, our government and foreign governments must reverse their policies and give firm assurance to American investors that their investments will be respected and protected, and that they may hope to profit by them, and collect their profits.

Almost as forthright is the Gray report:

Private investment should be considered as the most desirable means of providing capital and its scope should be widened as far as possible. . . . Further study should be given to the desirability and possibility of promoting private investment through tax incentives, in areas where economic development will promote mutual interests, but where political uncertainty now handicaps United States private investment.

Two specific steps are advocated for immediate action to stimulate private investment:

"(a) The negotiations of investment treaties to encourage private investment should be expedited; (b) The bill to authorize government guaranties of private investment against the risks of non-convertibility and expropriation should be enacted as a worthwhile experiment."

Since all this encouragement of private investment may be expected to remain confined to paper, the Gray report also places "heavy reliance" on public lending, and seeks to "make sure that our own house is in order—that we have eliminated unnecessary barriers to imports, and that our policies in such fields as agriculture and shipping are so adjusted that they do not impose undue burdens on world trade."

Here, again, the public spokesman must be more circumspect than the private. Says the Gray report: "With respect to our own agricultural policies we should, over the long-run, attempt to modify our price support system, and our methods of surplus disposal and accumulation of stocks, in ways which, while consistent with domestic objectives, will be helpful to our foreign relations." Such double-talk, together with the limitation proposed for shipping subsidies, is, of course, aimed at achieving the same objective as Leffingwell: abandonment of the American farmer so that industry may resume its customary exports of commodities and private captial.

EVER SINCE 1917, WHEN THE UNITED States became a creditor nation, the basic contradiction inherent in a finance capital imperialist nation exporting private capital while simultaneously maintaining a substantial export surplus in commodities and services has become more acute. The essence of the problem is clearly the necessity to make it possible for recipients of American private capital to pay the carrying charges, to remit the profits, and ultimately to repay the loans and investments. In the 1920s the problem was solved through large-scale remittances abroad of recent immigrants to the United States, coupled with ultimate repudiation of a substantial portion of American-held foreign securities.

In the long run, however, *if American imperialism is to function in the traditional manner,* the United States must import more than it exports; i.e., it must acquire an unfavorable balance of trade sufficient to cover the tribute exacted by American capital. To be sure, remittances of gold temporarily help to achieve the necessary balance, but the United States has long since acquired the overwhelming portion of the world's gold supply. Foreign countries, fundamentally, can only earn the dollars they need by carrying the majority of trade in their own ships, by inducing American tourists to spend a sizable amount of dollars abroad, and by exporting more commodities to the United States than they import from the United States. Since, with relatively few exceptions, foreign countries cannot compete with American manufacturers, they are reduced to exporting to the United States raw materials, minerals and farm products.

When England was confronted with a similar problem in 1847, she repealed the "Corn Laws," permitting foreign wheat and other agricultural commodities to be imported into England without tariffs. The result was the abandonment of British agriculture, accompanied by a gigantic increase in industrial output. Perhaps, if the Farm Bloc were not so strong, American imperialism might have been able to achieve a classic solution of its crucial imperialist contradiction. It is, however, politically impossible and historically too late to solve the problem in this manner. The experience of the last few years indicates the only way in which American imperialism can hope to continue to maintain an export level between five and ten per cent of total output, as the following data (from the June, 1951, *Survey of Current Business*) show (see table ~~on p. 245).~~ above.

AMERICAN EXPORTS AND MEANS OF FINANCING, 1948-1950
(Millions of Dollars)

Item	*1948*	*1949*	*1950*
Exports of goods and services	$16,967	$15,974	$14,425
Means of Financing			
Foreign sources:			
United States imports of goods and services	10,268	9,603	12,128
Liquidation of gold and dollar assets	780	—60	—3,645
Dollar disbursements (net) by:			
International Monetary Fund	203	99	—20
International Bank	176	38	37
United States Government:			
Grants and other unilateral transfers (net)	4,157	5,321	4,120
Long and short-term loans (net)	886	647	164
United States private sources:			
Remittances (net)	678	522	481
Long and short-term capital (net)	856	589	1,316
Errors and omissions	—1,037	—785	—156

American exports of almost $17 billion in 1948, almost $16 billion in 1949, and more than $14.4 billion in 1950 amounted to 7 per cent, 6.8 per cent, and 5.6 per cent, respectively, of net national product. This is relatively less than the ratio that "normally" prevails with the exception of years of deep depression. Its importance cannot be measured simply by reference to the absolute amounts involved. For many industries and, by and large, for the economy as a whole, the profitability of the remaining 90-95 per cent of output that is sold on the domestic market depends on maintenance of these exports. It is not only that exports make possible indispensable imports, but that surplus value is created at every stage in the process of production. Elimination of all exports, aside from certain obviously serious political and economic consequences, would not merely reduce profits of certain industries, possibly sending them into bankruptcy, but would immediately lower drastically the rate and mass of profit for al lindustry, and with cumulative effects.

Even though imports have been at the $10 billion level, the visible surplus in the balance of payments for commodities and services was $6.7 billion in 1948, almost $6.4 billion in 1949, and $2.3 billion in 1950. The narrowing of the gap in 1950 is due more to the rise in imports as the scramble for raw materials developed after the outbreak of the Korean war than to the fall in exports. It was more than offset, however, by the flight of gold and dollars from America as "hot" money sought the greater safety of haven in Uruguay and other places.

changes in national economies resulting from inflation and steadily increasing state intervention. Precisely because the new method of sustaining American imperialism is geared to the needs of American military strategy, the ultimate consequences may be so far-reaching as to destroy the remaining foundations of capitalism. To combat a Stalinist imperialism operating from the base of bureaucratic collectivism, with its ability to subordinate all its satellite economies to the demands of Moscow and to standardize military equipment, procurement and transportation, requires a more or less comparable "internationalization of war preparations" on the part of American imperialism and its more indispensable allies in Western Europe.

It may still be possible in some circles to question the relative superiority of a nationalized economy over competitive capitalism in ordinary matters of production and distribution, but in the conduct of modern war, and therefore of war preparations, even a bureaucratic, brutal and horribly inefficient Stalinism is incomparably more successful in achieving the necessary coördination and integration of its war-making potential, due to its collectivist base, than the most highly developed capitalist nations could ever hope to achieve without vast structural changes. Under the impact of common financing, centralized administration cutting across national boundaries, standardization of armaments, and pooling of production resources—all of which are indispensable if American imperialism has any hopes of defending Western Europe against Stalinism—national sovereignty must be subordinated to the superior power, economic and military, and wisdom emanating from Washington and its representatives, especially Eisenhower.

A remarkable article on this entire problem, by its chief European economic reporter, Michael L. Hoffman, appeared in the *New York Times* of Aug. 5, 1951. Its analytical portion is worth reproducing in full:

> Nobody can foresee with anything like exactness just how this [a common military budget and a common military procurement administration] would affect the economy of Europe. But European and United States economists have considered the matter fairly carefully already, and the following are some of the consequences that can now be predicted with some degree of confidence.
>
> For practical purposes, *national parliaments would lose control of from one-third to nearly half of their own national budgets.* They could complain, or refuse to vote taxes, or make all kinds of other trouble, but *once in the European army a government would pretty much have to accept its defense burden as given.*
>
> It would be quite inconceivable that this degree of rigidity could be introduced into national government budgets without bringing in its train a *far greater degree of coordination in budgeting generally than exists now.*
>
> Every participating country would acquire suddenly an *entirely new kind of interest in its neighbors' prosperity.* It is true now, but not very deeply burned into the consciousness of most people, that Germany cannot thrive without France, France without Italy, and so on. This would become obvious if the taxpayers saw their burdens, mounting because some other country could not support a larger share.
>
> Discussions of trade and monetary policy would take place in an entirely new atmosphere, in which everybody would be forced to keep an eye on Europe a a whole.
>
> *It could be expected, at the very least, that the duplication and misdirection of investment caused by uncoordinated national armament programs would be reduced greatly. The range of industry affected by military procurement under modern conditions is so great that a unified procurement service for a European army would become the outstanding "market" for a large number of European industries.*
>
> *It has been Europe's experience for ages that the growth of armed forces under the control of governments with sovereignty over larger and larger territorial units generally has been followed by the establishment of currencies, commercial law and other social institutions on a larger and larger territorial basis.*
>
> *There is nothing inevitable about this progression,* but those European and United States leaders and officials who have been convinced of the necessity for getting rid of *national barriers to economic expansion* in Western Europe like to believe that the "law" will work once again. (Italics mine—T. N. V.)

In reality, of course, such integration and coördination as may be achieved in Western Europe can only occur under the stimulus, organization and direction of American imperialism. European capitalism is long since incapable of saving itself. Were it not for the aid and support received from the American bourgeoisie, the European bourgeoisie would have abdicated or been overthrown. Far-fetched and alarming as it may seem, the Kautskyian theory of "ultra-imperialism" may yet see its realization, in the event the Third Camp fails to intervene actively in the course of history before it is too late, in the form of world hegemony being achieved by either American or Stalinist imperialism.

The rôle of military aid in the new phase of American imperialist development will be even more pervasive and all-embracing than the rôle of relief and rehabilitation. With overriding priority over materials, production facilities and manpower, military aid appears to be the vehicle that will permit American imperialism to complete its task of subjugating the economies of the lesser capitalist imperialist powers, of controlling their basic international policies, of influencing their domestic policies, and, above all, of dominating their colonial markets and trade. Naturally, there will be struggles, intense social conflicts, in many countries where the ability and will to resist subordination of legitimate class and national interests to Washington remains. Stalinism will naturally seek to exploit these contradictions wherever they appear. What the outcome of these complex stresses and strains will be may well determine the course of history for decades. Of one thing, however, we may be absolutely certain: the restoration of traditional American finance capital imperialism to sound health is excluded.

THE NEW POLICY OF AMERICAN imperialism, judging by its most eminent official and private spokesmen, is heartily in favor of the bloodless conquest of Europe and its empires, yet it seeks to accomplish this strategic aim by emphasizing the old, traditional methods, while paying lip-service to the new methods imposed by the exigencies of the times. The objective of European political union, with implied American control, has been voiced by innumerable leaders of the American bourgeoisie. Notable among these has been Mr. R. C. Leffingwell, head of the House of Morgan, who in an article in *Foreign Affairs* for January 1950, entitled "Devaluation and European Recovery," states: "Monetary union without political union is impossible. There cannot be a common currency without common sovereignty and a common parliament and common taxes and common expenditures."

Or, in the more oblique language of the Gray report (recommendation 21): "The United States should help to strengthen appropriate international and regional organizations and to increase the scope of their activities. It should be prepared, in so far as practicable, to support their activities as the best method of achieving the economic and security objectives which it shares with other free nations."

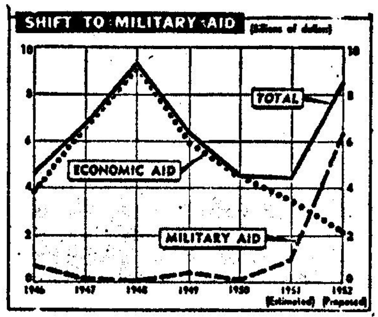
In the area of investment policy, the key to imperialist activity and perspectives, the language of publicly enunciated foreign economic policy more clearly parallels that of private sources. Leffingwell, for example, in the article cited above, comments on the fundamental contradiction of American imperialism as a creditor nation with a large favorable balance of trade, as follows:

> As a creditor nation, our tariffs should be for revenue only, except where needed to protect industries essential for the national defense. . . . What we need to do is to increase our imports more than we increase our exports. . . . Private Ameri-

any and Japan, the rôle of relief and rehabilitation would be even greater than the figures indicate.

Naturally, a large portion of the billions of dollars spent for relief and rehabilitation fulfilled humanitarian purposes. Nor is it possible or necessary to assess the motives that animated Washington at this time. The decisive fact is that relief and rehabilitation expenditures accomplished what private export of capital could not. The state began to acquire a major interest in foreign economic programs, as well as to relieve any pressure that might develop due to the rapid accumulation of capital. If, in the process, recipients of state foreign aid were "persuaded" to grant American imperialism military bases and to pursue various political and economic policies desired by Washington, so much the better. The *quid pro quo* generally present in American foreign aid programs became even more obvious with the launching of the Marshall Plan. Objectively, therefore, state foreign aid has served to fill the void left by the failure of private capital to function in a traditional imperialist manner and has served to bolster the political program of American imperialism.

Admitted military aid is now rapidly supplanting economic aid. In reality, of course, the entire foreign aid program directly or indirectly contributes to the grand strategy of American military policy. In this respect, state intervention in the foreign economic field parallels, and even leads, state intervention in the domestic economy, as increasingly a higher proportion of state expenditures are for "defense" purposes. While it is true that the program officially labeled "Mutual Defense Assistance Program," apparently to be called by Congress "Mutual Security Program," spent the $516 million included in the total foreign aid analyzed above in the year 1950, it would be a mistake to conclude that admitted military aid occurred only during the past year. For example, there is the so-called Greek-Turkish aid program, which by the end of 1950 had disbursed some $656 million. Of this amount, $165 million was spent prior to the launching of the Marshall Plan, $258 million during the last nine months of 1948, $172 million in 1949, and $61 million in 1950. That this program has been overwhelmingly military in character can hardly be denied. Other programs, such as China, smaller in monetary cost, could be mentioned. As the chart shows, even on the official definition, there has always been some military aid since the end of World War II. Through the first quarter of 1951, military foreign aid has admittedly reached $2 billion. In reality, of course, the figure has been much higher, and now openly exceeds so-called foreign economic aid.



From the *New York Times*, Aug. 5, 1951

By 1952, admitted military foreign aid is expected to account for three-fourths of total foreign aid. This is without half a billion dollars for overseas bases, included in the military construction program. Officially labeled economic foreign aid, which reached a peak exceeding $8 billion in 1948, and has been averaging about $5 billion annually, will decline to an estimated $2 billion. On this basis, even a recalcitrant Congress may be expected to continue to vote for these sizable outlays without too much difficulty. The possibilities of further increasing state foreign aid through pouring dollars into the bottomless pit of "mutual security" are clearly almost without limit.

Increasing war outlays have no lack of justifications from the apologists for and representatives of the bourgeoisie. For sheer brazenness, however, we doubt that the reasons attributed to E.C.A. administrator Foster as justifying the shift from economic to military aid can be equaled.

> The arguments forwarded by the administrator at that time [July 1950, as reported by Mr. Kennedy in the aforementioned dispatch to the *New York Times*] have become more elaborate in proportion to increasing international tension, but *basically they are the same arguments now being posed.* These are:
> *(1) Most of the Marshall Plan participating countries are now far enough advanced economically to direct their attention from internal problems to those of possible aggression.*
> *(2) An economy that has been restored must progress in the assurance of protective strength.* (Italics mine—T. N. V.)

While comment would be entirely superfluous, under this line of reasoning economic aid would necessarily have to be a prelude to military aid. American imperialism has no choice, nor does it grant any choice to its satellites. The slogan, publicly and privately, becomes: "Join our military camp, or no aid." While Washington is unduly sensitive to the term, here is a classic expression of imperialist coercion, albeit with new motives and new methods, but with the same tragic results of war, misery and starvation for the masses of humanity.

As we have previously observed, the Permanent War Economy becomes increasingly international in scope, bringing within the orbit of American imperialism every industry and population as yet outside of the orbit of Stalinist imperialism. A detailed analysis of the increase in the ratio of war outlays to total production in England, France and the rest of the non-Stalinist world is unnecessary, nor does space permit. It suffices to point out the rapid *rate* of increase in the "defense" budgets of the North Atlantic Treaty powers in 1951 as compared with 1950. These increases, according to the *New York Times* of May 27, 1951, are: Norway, 117 per cent; Denmark, 67 per cent; United Kingdom, 53 per cent; Italy, 53 per cent; France, 45 per cent; and the Benelux countries, 39 per cent. Nor are the bases from which these increasing military expenditures start entirely negligible in terms of the proportion of total output already devoted to means of destruction. The Wilson report, for example, states: "Our European allies have increased their planned rate of defense expenditures from approximately $4.5 billion a year prior to the Korean conflict to almost $8 billion in 1951. Higher spending rates are projected for subsequent periods."

It is no wonder, therefore, that Western European capitalism, operating on such an unstable foundation compared with the United States, has already experienced an inflation exceeding the American during the past year. The social consequences in every country, particularly Britain, are profound, but outside the scope of our analysis. Moreover, because of the dominant position of America in the world's markets, especially in the present scramble for critical raw materials, the economies of every non-Stalinist country, even those with considerable nationalization and far-reaching state controls, are at the mercy of every whim and vagary of Washington, planned or capricious. Under the circumstances, the low state of American popularity throughout the non-Stalinist world should not be a surprise to the American bourgeoisie.

The impact of this new phase of American imperialism is far broader in its foreign implications than would appear merely from an analysis of the increase in armaments budgets throughout the world, or from the bourgeoisie. For, these exports of private capital are taking place today when gross private domestic investment is averaging about $40 billion annually or more, and when net private capital formation runs from $25-30 billion a year. Net foreign investments at present should actually be at least four times their current level in order merely to match the performance of two decades ago. Another way of expressing the same thought is to equate the present volume of net foreign investments to about $200 million annually to permit direct comparison with the pre-depression period. It is therefore hardly surprising that American imperialism is having difficulties in obtaining adequate supplies of the key raw materials required to keep the economy operating at capacity.

Without doubt, exact information on the changing character and composition of American foreign investments, particularly direct investments, would throw even more light on the raw materials shortage. Unfortunately, it is not even possible to guess at the profound changes that must have taken place during and since the war. We would expect the trend that manifested itself prior to the war, when between 1929 and 1939 American investments in the Western Hemisphere increased from 59 per cent of the total to 70 per cent, to have continued. To be sure, the Western Hemisphere is not exactly barren of raw materials, but aside from a relatively few projects, in such countries as Venezuela and Bolivia, the emphasis has not been on the mining of strategic minerals. Thus, the disparity between the needs of the Permanent War Economy and the ability of American imperialists to deliver the necessary raw materials may be even greater than the dollar figures on foreign investments would indicate.

The vacuum caused by the paucity of private exports of capital has had to be filled by the state. That is the primary significance of the Marshall Plan and all other state foreign aid programs. The amounts have been quite sizable, averaging about $5 billion annually since the end of World War II, even according to the admittedly conservative figures of the Department of Commerce (as reported in the March, 1951, *Survey of Current Business*). The data, by country, are shown in the tabulation on the bottom of this page.

Gross foreign aid by the American government during this period totaled about $30.2 billion, but reverse grants and returns on grants plus principal collected on credits equaled $2.4 billion, bringing the net total to $27.8 billion. How much of the $9.2 billion of credits will be returned and how much will ultimately assume the status of outright gifts remains to be seen. It is interesting to note, however, that as of December 31, 1950, according to the Department of Commerce, "World War I indebtedness [owing to the United States government] amounted to $16,276 million, of which $4,842 million represented interest which was due and unpaid."

It is also pertinent to observe that preliminary figures for the first quarter of 1951 indicate that net foreign aid exceeded $1.1 billion, amounting at an annual rate to about $4.5 billion for the year. The probability is that the actual figure will exceed $5 billion, as the transition from economic to military aid is well under way.

With two-thirds of net grants and almost 90 per cent of net credits having gone to Marshall Plan countries, the result has been that these major allies being sought by American imperialism have received almost three-fourths of total net foreign aid extended since the end of World War II. Clearly, there is room for expansion of aid in many directions to hoped-for and deserving allies, actual or potential. Nor will the fact that almost one-half of total net foreign aid has been awarded to Britain, France and Germany escape the attention of those who appreciate the full significance of American military-economic strategy.

The policy of purchasing allies with government grants and credits in order better to contain expanding Stalinist imperialism did not originate with the Marshall Plan, which began operations in April 1948. As a matter of record, more than one-half of total net foreign aid ($14.5 billion out of the $27.8 billion total) was disbursed prior to the launching of the Marshall Plan. The Marshall Plan merely continued an already established policy by changing somewhat the form of aid and creating a new agency to administer it.

Some of the major categories that received foreing aid (on a gross basis) prior to April 1948 are:

	(Millions of Dollars)
Special British loan	$ 3,750
UNRRA, post-UNRRA, and interim aid	8,172
Civilian supplies	2,360
Export-Import Bank loans	2,087
Lend-Lease	1,968
Surplus property (incl. merchant ships)	1,234
TOTAL	$14,571

Thus, these six categories accounted for the overwhelming bulk of foreign aid prior to the E.C.A. program. They reveal quite clearly the unique rôle of "relief and rehabilitation" under the Permanent War Economy. It will be recalled that from 1946-1950 (see "Basic Characteristics of the Permanent War Economy" in January-February, 1951, issue of The New International) indirect war outlays played a crucial rôle in maintaining the ratio of war outlays to total output at the 10 per cent level. Virtually equal in magnitude to direct war outlays, indirect war outlays were indispensable in maintaining the Permanent War Economy at a successful rate. And expenditures for relief and rehabilitation averaged about one-third of total indirect war outlays during this period. As a matter of fact, there is good evidence to believe that if proper valuation were given to Army-administered supplies, especially in Germ-

FOREIGN AID BY COUNTRY, July 1, 1945 Through December 31, 1950
(Millions of Dollars)

Country	*Net Grants**	*Net Credits†*	*Net Foreign Aid*
Belgium-Luxembourg	$ 509	$ 174	$ 683
Britain	1,523	4,487	6,010
France	1,873	2,037	3,910
Germany	3,026	67	3,093
Greece	1,100	98	1,198
Italy	1,689	357	2,046
Netherlands	549	381	930
Turkey	166	82	248
Other ERP Countries	1,837	327	2,164
ERP SUB-TOTAL	12,272	8,010	20,282
Other Europe	1,088	451	1,539
American Republics	135	219	354
China-Formosa	1,567	116	1,683
Japan	1,706	14	1,720
Korea	333	21	354
Philippines	655	100	755
All Other Countries	851	265	1,116
GRAND TOTAL	$18,607	$9,196	$27,803

*Assistance that takes the form of an outright gift for which no payment is expected, or which at most involves an obligation on the part of the receiver to extend reciprocal aid to the U. S. or other countries.

†Assistance under an agreement that calls for ultimate repayment.

extent. The state now consumes the largest portion of accumulated capital. The state likewise undertakes by far the major responsibility for capital exports in the form of government loans and grants. The nature of state capital exports is such, with political considerations predominant, that markets and raw materials tend to be reduced in importance.

In largest part, however, the failure of American imperialism to perform according to the early textbooks is traceable to steady dwindling of the world capitalist market. How can American capitalists invest in Chinese tungsten mines, when China has come within the orbit of Stalinism and American capital has been forcefully driven out of China? Such examples of forcible exclusions of American imperialism from important sources of strategic materials could be multiplied many times since the advance of Stalinist imperialism in the post-World War II period.

Even more significant, however, is the fact that in the non-Stalinist world the climate for American investments has not been exactly favorable. Nationalization, confiscation, the threat of expropriation, and a host of other factors have combined to make private American capitalists extremely cautious about investing surplus capital in any foreign enterprise. This was not the case in the 1920's, when American net foreign investments increased about 100 per cent during the decade ending in 1931, at which time they reached a peak variously estimated at between $15 billion and $18 billion.

Considering the increases that have occurred in production, accumulation of capital, and the price level, a comparable figure for today would be in the neighborhood of $50 billion! Yet, despite the absence of data, it is clear that *American net foreign investments today are lower than they were in 1931*. What the precise figure is we cannot say, as recently the first such census since before the war was undertaken by the Department of Commerce and the results will not be available for another year. Nevertheless, according to *The New York Times* of May 31, 1951, which reported the news of the new census, "Sample data collected by the Department of Commerce in recent years indicate that the new census will show a value of more than $13,000,000,000." This figure represents direct investments as distinct from portfolio investments, but it is most unlikely that portfolio investments will be more than a few billion dollars, as bonds of foreign governments have not proved very attractive to American investors after the sad experiences of widespread defaults in the 1920's and 1930's.

The fact of the matter is that, from the point of view of American imperialism, American net foreign investments should be at least three times their present level. But this is a manifest impossibility, both politically and economically. Neither the capital nor the market is available, even if all the necessary incentives were present, which is obviously not the case.

It may be easier to grasp the magnitude of the problem that confronts American imperialism today if we first look at the figures representing the heyday of American imperialism and then compare them with the present situation. The following tabulation portrays the movement of American foreign investments, both gross and net, from 1924 to 1930.

UNITED STATES PRIVATE LONG-TERM FOREIGN INVESTMENTS 1924-1930
(Millions of Dollars)

Year	Total of New Foreign Investment*	Net New Long-term Capital Outflow†
1924	$1,005	$ 680
1925	1,092	550
1926	1,272	821
1927	1,465	987
1928	1,577	1,310
1929	1,017	636
1930	1,069	364
Average	1,214	764

*Includes new foreign loans plus new net direct foreign investment.

†Total foreign investment minus amortization receipts and net sales of outstanding foreign securities.

The data are based on *The United States in the World Economy* (U. S. Department of Commerce, 1943) and taken from a paper, "Foreign Investment and American Employment," delivered by Randall Hinshaw of the Board of Governors of the Federal Reserve System before the 1946 annual meeting of the American Economics Association. During this seven-year period, gross foreign investment was never less than $1 billion in any one year, and averaged over $1.2 billion annually. The large proportion of portfolio investments that existed resulted in heavy amortization payments which, together with net sales by American investors of outstanding foreign securities, reduced the net foreign investment during this period to an average of $764 million. The sizable difference between gross and net foreign investment in 1930 is due to the onset of the world crisis and the large-scale liquidation by Americans of foreign investments which, in turn, aggravated the world crisis.

During the 1930's, the world-wide depression, plus the acts and threats of Nazi imperialism, caused a shrinkage of American foreign investments of about $4 billion. The Department of Commerce thus estimates total American foreign investments at the end of 1939 at $11,365,000,000. It is apparent that there was a further decline during the war and, beginning in 1946, a relatively modest increase.

While the estimates of American foreign investments in the postwar period are undoubtedly quite crude, we summarize below the movement of United States private long-term capital (from the June 1951 issue of *Survey of Current Business*) as indicative of the pitifully low levels to which traditional American imperialism has sunk:

OUTFLOW OF UNITED STATES PRIVATE LONG-TERM CAPITAL, 1948-1950
(Millions of Dollars)

Year	Total Outflow of Private Long-Term Capital*	Net Outflow of Private Long-Term Capital†
1948	$1,557	$ 748
1949	1,566	796
1950	2,184	1,168
Average	1,769	904

*Includes total of direct foreign investments plus other investments, as loans, and is not comparable to the similar column in the previous table for 1924-1930, which is net of direct investments.

†This column is conceptually comparable to the similar column in the previous table.

While an average net foreign investment of $904 million appears to be significantly higher than the $764 million shown for the period 1924-1930, such a conclusion would be totally misleading. In the first place, the higher figure for 1950 is due entirely to a sharp bulge in the third quarter, amounting to $698 million, which is mostly in the form of portfolio investments, obviously a result of a sharp flight of capital from the dollar following the outbreak of the Korean war. That this was a temporary phenomenon, not possibly to be confused with any resurgence of traditional American imperialism, is shown by the sharp drop in the fourth quarter of 1950 to a mere $60 million of net foreign investment. Moreover, the preliminary figure for the first quarter of 1951 is only $212 million.

In other words, in dollar terms, net foreign investments of American capital are currently at the same level as twenty years ago. While this amount was consistent with the requirements of an expanding American imperialism at that time, today it is nothing but a source of frustration to the policy-makers among the

We have now entered a new phase of foreign economic relations. The necessity for rapidly building defensive strength now confronts this nation and other free nations as well. This requires a shift in the use of our economic resources. It imposes new burdens on the gradually reviving economies of other nations. Our foreign economic policies must be adjusted to these new burdens. . . . Our own rearmament program will require us to import strategic raw materials in greater quantities than before.

Wilson, in his report previously cited, hints at the dependence of the American war economy on the minerals and raw materials of the "underdeveloped" areas: "For most of these metals [cobalt, columbium, molybdenum, nickel and tungsten and other alloying metals] we are dependent primarily on foreign sources, and defense requirements of other nations are also increasing."

It remains, however, for the Rockefeller report (Advisory Board on International Development, summarized in *The New York Times,* March 12, 1951) to place the problem of raw materials in proper perspective, and at the same time to reveal the weaknesses that have accumulated in the structure of American imperialism. The section is worth quoting in full:

With raw material shortages developing rapidly, an immediate step-up in the production of key minerals is vital if we are to be able to meet the growing military demands without harsh civilian curtailments.

Two billion dollars energetically and strategically invested over the next few years could swell the outflow of vital materails from the underdeveloped regions by $1,000,000,000 *a year.*

This increased production can best be carried out under *private* auspices and wherever possible *local capital* within the country *should be encouraged to enter into partnership with United States investors in these projects.*

Both immediate and longer-range peace needs warn of grave consequences unless such a development program is undertaken *promptly.* Although the United States accounts for more than *half* of the world's heavy industry production, it mines only about a *third* of the world's annual output of the *fifteen basic minerals.*

Soviet shipments to the United States of chrome and manganese, so essential for steel-making, have already been choked back. The advisory board hopes that the people in the Soviet-controlled areas will be able to regain their freedom. However, today their trade is tightly controlled.

In the manganese and tungsten deposits of Latin America, Africa and Asia, the chrome production of Turkey and the Philippines, the timber stands of Brazil and Chile, the pulpwood of Labrador lie resources for developing substitute sources for materials which come from areas now dominated by the Soviets or most vulnerable to aggression.

Continued dependence of the free nations upon *imports and markets* of Soviet controlled areas weakens them in enforcing measures of economic defense.

Peace, free institutions and human well-being can be assured only within the framework of an *expanding* world economy.

With an expanding productive base it will become possible to increase individual productivity, raise living levels, increase international trade, meet the needs of the growing populations in the underdeveloped areas and perhaps even resettle peoples from the industrial areas under growing population pressure.

Our objective should not be to *"mine and get out"* but to strive for a balanced ecoonmic development which will lay an enduring base for continued economic progress. *Workers should receive a full share in the benefits as quickly as possible.*

Improving the standard of living of the people of the underdeveloped areas is a definite strategic objective of the United States foreign policy.

The advisory board recommends the continued encouragement of the free labor unions in the underdeveloped areas.

And that the International Labor Organization's recommendations as to fair labor standards be used as a guide for minimum labor standards in the underdeveloped areas. (Italics mine—T. N. V.)

Actually, coincident with the outbreak of the Korean war, American imperialism was aware of its vulnerability in strategic materials in the event of continuing "hot" and "cold" war with Stalinist imperialism and sought to remedy the situation. As Paul P. Kennedy puts it in *The New York Times* of August 5, 1951:

The shift in emphasis from purely economic to economic-military aid within the foreign assistance program began to take vague shape as early as July 1950. At that time Mr. Foster, in something of a surprise move, advocated the diversion, in some countries, of E. C. A. matching funds toward military production facilities.

The Administration has requested $8.5 billion for fiscal 1952, of which $6.3 billion would be in military aid and $2.2 billion for continued economic aid. Economic assistance is now defined as "providing resources necessary for the support of adequate defense efforts and for the maintenance, during defense mobilization, of the country's general economic stability." In view of the strong outburst by that staunch defender of democracy and the Democratic Party, Senator Connally of Texas, that "the United States can't support the whole free world and remain solvent," it may be wondered why there should be any bourgeois opposition to a program geared exclusively to serving the military-economic needs of American imperialism. The answer lies in two facets of the program that have not been as well publicized as the immediate request for $8.5 billion.

It now appears that the $8.5 billion is intended as only part of a three-year $25 billion program. Mr. Kennedy, in the same article previously cited, states: "Both Secretary of State Dean Acheson and Secretary of Defense George C. Marshall have estimated that there is little possibility of building up the free world's fighting force on less than the $8.5 billion the first year, *which would be the first installment of $25 billion over a three-year spread.*" (Italics mine—T.N.V.) This is approximately twice as large as forecasts made earlier in the year by Administration spokesment. Admittedly a large portion of Military Assistance funds will go to Asia and the Pacific area.

Again quoting Mr. Kennedy: "The E.C.A. answer to Senator Connally's charge that the United States is spreading itself too thin by going into Asia and the Pacific area is that *production of materials is the greatest present problem. To get the materials available in Asia, the United States must give in exchange technical and economic assistance,* the agency contends." (Italics mine—T.N.V.)

The increasing dependence of American imperialism on foreign sources, chiefly present or former colonial areas, of key raw materials is attributable to many causes. Rapid exhaustion of natural resources, particularly iron ore and petroleum, within the United States, in response to the almost insatiable appetite of the Permanent War Economy for means of destruction and the ability to transport and operate them, is clearly a factor of considerable importance. Along with this has gone the sizable increase in production, coupled with tremendous accumulations of capital, analyzed in previous articles in this series. Historically, however, the decisive factor has been the utter failure of American imperialism to operate in the traditional finance capital manner.

This failure has not been due to any lack of desire on the part of American imperialism to export a sizable portion of its accumulations of private capital, thereby acquiring both markets and sources of primary materials in sufficient quantities to maintain the domestic level of profit and simultaneously to assure a steady flow of those raw materials essential to industry in war or peace. In part, this development has been due to the fateful consequences of the Permanent War Economy. The state, as demonstrated in the May-June 1951 issue of The New International, guarantees profits for all practical purposes. The market incentives to export 10 per cent or more of both production and accumulated capital, traditional in the first three decades of the twentieth century, in order to maintain the profitability of industry as a whole, have atrophied to a surprising the American bourgeoisie as a matter of self-preservation, but we must leave to another article treatment of its implications.

We shall also leave for subsequent analysis consideration of the implications of the various techniques used to try to "freeze" the class struggle and of the increasingly obvious Bonapartist tendencies that may be discerned as a result of what amounts to an "interlocking directorate" between the military bureaucracy and big business.

The virtual guarantee of profits by the state is the *sine qua non* of increasing state intervention under the Permanent War Economy. The scandals in the letting of war contracts never seem to deter repetition of the most unsavory performances of the past, even when the cast of characters is changed. "By far the most important lesson," state the authors of *Wartime Production Controls* (p. 382), "is that the power to contract is the power to control."

While the very mechanism of price control, based on perpetuating a rate of profit representing an all-time modern historical peak, is balm for the wounds of the more individualistically-minded members of the bourgeoisie, at least the larger ones, the forces that constantly work toward a transformation of traditional capitalism proceed with a logic of their own. The Office of Price Stabilization issues various types of "mark-up" regulations that result in the fixing of price ceilings at levels guaranteed to maintain super-profits, but along comes its boss, Eric Johnston, Economic Stabilization Administrator, to announce (April 21, 1945) that "no industry will be permitted to raise prices if its dollar profits amount to 85 per cent of the average of its three best years during the 1946-49 period, inclusive."

Whether this policy will be implemented remains to be seen. And, as we have demonstrated, profits in 1946 to 1949 were so high that 85 per cent of this level hardly represents impoverishment. The significant point, however, is that it is difficult to foresee the limits of state intervention, assuming that the Permanent War Economy continues for an indefinite number of years. The promulgation of a profit-limiting policy, even if strictly confined to paper as was the case with O.P.A. during World War II, would horrify the rugged individualists of the pre-1941 era but today is a necessary genuflection to the exigencies of the class struggle.

The all-pervading character of state intervention, with its *modifications* of the nature and laws of capitalism, should not come as a surprise to any Marxist, for more than 70 years ago Engels wrote ("Origin of Family," p. 207): "But it (the state power of coercion) increases in the same ratio in which the class antagonisms become more pronounced, and in which neighboring states become larger and more populous. A conspicuous example is modern Europe, where the class struggles and wars of conquest have nursed the public power to such a size that it threatens to swallow the whole society and the state itself."

4. Military-Economic Imperialism

It is precisely in its international aspects that the new stage of capitalism, which we have termed the Permanent War Economy, reveals most clearly its true character as well as its inability to solve any of the fundamental problems of mankind. This is not due to any failure on the part of the American state to recognize the decisive importance of foreign economic policy, as witness both the Gray and Rockefeller reports within the past year, but rather to the historical impasse in which capitalism finds itself.

The capitalist world is not what it was in 1919 or in 1929. Even the depression-shrunk capitalist market of 1939 was relatively larger, and offered greater opportunities for profitable investment of American surplus capital, than the crisis-ridden world of today, confronted as it is with the unrelenting pressure exerted by Stalinist imperialism. Just as the domestic economy is increasingly dominated by the impact of war outlays, both direct and indirect, even more so is foreign policy in every ramification subordinated to military (euphoniously termed "security") considerations.

The tragedy of the situation, from the point of view of American imperialism, as we have previously pointed out (see especially "After Korea—What?" in the November-December 1950 issue of THE NEW INTERNATIONAL) and as the more far-sighted representatives of the bourgeoisie perceive, is that American imperialism cannot hope to defeat Stalinist imperialism by other than military means; and yet a military victory, even if it be achieved, threatens to destroy the very foundations upon which capitalism now rests. Not only would the military defeat of Stalinist imperialism remove the entire political base upon which the Permanent War Economy depends for justification of huge war outlays, without which the economy would collapse, but the very process of achieving a military solution of the mortal threat posed by the existence of an aggressive Stalinist imperialism is guaranteed to complete the political isolation of American imperialism, undermine its economic foundations and unleash socialist revolution on a world scale.

THE ARENA OF STRUGGLE between American and Stalinist imperialism is truly global, but it necessarily centers on Europe and Asia. There are sound economic reasons for increasing American preoccupation with these areas, aside from their obvious political importance as actual or potential foci of Third Campism. As Defense Mobilizer Charles E. Wilson graphically points out in his second quarterly report (*New York Times*, July 5, 1951):

> Potentially, the United States is the most powerful country in the world, but we cannot undertake to resist world communism without our allies. Neither we nor any other free nation can stand alone long without inviting encirclement and subjugation.
>
> If either of the two critical areas on the border of the communist world—Western Europe or Asia—were to be overrun by communism, the rest of the free world would be immensely weakened, not only in the morale that grows out of the solidarity of free countries but also in the economic and military strength that would be required to resist further aggression.
>
> Western Europe, for instance, has the greatest industrial concentration in the world outside of the United States. Its strategic location and military potential are key factors in the free world's defense against Soviet aggression.
>
> If Western Europe fell, the Soviet Union would gain control of almost 300 million people, including the largest pool of skilled manpower in the world. Its steel production would be increased by 55 million tons a year to 94 million tons, a total almost equal to our own production. Its coal production would jump to 950 million tons, compared to our 550 million. Electric energy in areas of Soviet domination would be increased from 130 to 350 billion kilowatt-hours, or almost up to our 400 billion.
>
> Raw materials from other areas of the free world are the lifeblood of industry in the United States and Western Europe. If the Kremlin overran Asia, it would boost its share of the world's oil reserves from 6 per cent to over half . . . and it would control virtually all of the world's natural rubber supply and vast quantities of other materials vital to rearmament.

And in manpower, in the long run apt to be the final arbiter, should Stalinism conquer Europe and Asia, American imperialism would be outnumbered by a ratio of at least four to one!

In the words of the Gray "Report to the President on Foreign Economic Policies" (*New York Times*, Nov. 13, 1950):

avoidable. In this as in many other instances the bureaucrats see in the failure of their preceding measures a proof that further inroads into the market system are necessary.

We may not be pardoned for reproducing at length the views of one of the last living theoreticians of nineteenth century capitalism, but his views are unique and the subject is important. Among the factors that von Mises conveniently overlooks are the political impossibility of curtailing consumption so drastically by reliance on fiscal policy alone, the fact that government competition with private industry for scarce materials would accelerate the inflation that is *inevitable* once a sizable portion of production is devoted to war purposes, that confiscatory taxation (probably including a capital levy) undermining the very foundations of capitalism would be required, that Draconian fiscal controls are themselves inconsistent with the "automatic" theory of the market and would undoubtedly require implementation through forced savings and direct exercise of the police power of the state to ensure compliance, and that even if it were prudent for the bourgeoisie to ignore the lessons of history and accept the advice of von Mises, the time required to enable the state to direct production through indirect controls would unquestionably be fatal.

THE TIME ELEMENT, ESPECIALLY, IS recognized by the authors of the only comprehensive analysis of production controls in the war economy (*Wartime Production Controls* by David Novick, Melvin Anshen and W. C. Truppner, Columbia University Press, 1949, p. 16):

In peace the major influence upon economic activity is profit. The ultimate measure of the desirability of undertaking certain industrial activities or carrying them out in certain ways is the anticipated effect of the final result on the individual enterprise's profit and loss statement. Since the peacetime economy is made up of a multitude of individual enterprises, it is important to each one, *but not to the nation*, whether its particular choice of policy or method is profitable or not. The classic justification for non-interference by government in business is that the *accidents* of individual choice result in the greatest possible production from the national resources. *In time of war, however, the nation cannot wait for each of these individual experiments to produce the desired result. An over-all control of economic activity must be substituted for individual planning under the profit motive.* And not only must the control agency make the industrial decisions; it must do its job without either the profit and loss test of the wisdom of its policies and the efficiency of its methods, or the time required to apply any other test. (Italics mine—T.N.V.)

In other words, when it is a question of *survival*, neither price nor profit can guide the allocation of resources. Nor, for that matter, can the state as a general rule be expected to operate in response to such motives. After flirting with the reasons for this fact for three pages, the authors finally come sufficiently close to hitting the nail on the head (p. 18): 'Because the effect of price is *random and non-selective*, in time of war price manipulation cannot be used as the major tool for directing the use of the nation's resources." (Italics mine—T.N.V.) It therefore follows that: *"As the volume of military requirements increases, the area of control must grow. Ultimately, in the total war economy there must be total industrial control."* (Italics mine—T.N.V.)

Not only is controlling production for specific objectives through the price mechanism like scattering seeds to the four winds to plant a kernel of wheat in a particular spot, but it places the various sections of the capitalist class in an untenable position with respect to their fellow capitalist competitors. As Novick *et al* put it, citing the experience of 1942, pp. 67-68: "Caught in the competitive forces of the free market, no single producer of refrigerators or passenger automobiles could contemplate closing his doors in the face of eager crowds of customers (and endangering the continuance of his carefully nurtured distributor organization) in order to prepare his production lines to make machine guns, tanks, guns, and airplane subassemblies. *Such decisions could be made only on an industry-wide basis, and this could be brought about swiftly only through government direction.*" (Italics mine—T.N.V.)

Moreover, in many cases, as previously mentioned, it would be impossible to induce the desired capital investment solely by appealing to the profit instincts of individual capitalists. As a matter of record, the Federal government financed in the neighborhood of $35 billion of industrial, military and housing facilities during World War II. Almost half of this total was for the creation of new manufacturing facilities, the vast majority of which private capital could not have undertaken even if it possessed the necessary accumulations of capital for the simple reason that, without substantial state aid, the prospects of profits would be far too remote. To be sure, many of these facilities were subsequently sold to private capital at a fraction of their cost, so that those whose products had peacetime uses could be operated by private industry at a profit. Nevertheless, the fact remains that exclusive reliance on the immediate profit motive to direct investment into desired channels during a major war (and even during a minor war as at present) would markedly reduce the *military* effectiveness of any industrialized nation.

The preeminent role played by state capital accumulations during World War II occurred, it must be emphasized, despite the huge aggregations of private capital that existed and which received the overwhelming portion of war contracts. "Analysis . . . indicated that in the third quarter of 1942 the 100 largest company consumers of each basic metal used the following percentages of the metal consumed by all manufacturing companies: carbon steel, 49 per cent; alloy steel, 70 per cent; copper, 79 per cent; copper-base alloy, 66 per cent; and aluminum, 81 per cent. A combined listing (eliminating duplications) yielded a total of 391 different companies (approximately 2,000 plants). In the third quarter of 1942 these 391 companies used 56 per cent of the carbon steel consumed by all manufacturing companies; 75 per cent of the alloy steel; 82 per cent of copper; 71 per cent of copper-base alloy; and 85 per cent of aluminum. . . . The same 391 companies shipped more than three-fourths of the total dollar value of all direct military-type products." (*Wartime Production Controls*, p. 346.)

ASIDE FROM THE PROBLEM OF PROduction, which requires direct state controls, such as priorities, allocations and the over-riding *directive* power of the state, the state, representing the interests of the bourgeoisie *as a whole*, must try to keep the inflation within tolerable limits. Naturally, inflation is so managed as to place the main burden on the backs of the working classes and many individual capitalists amass huge and quick profits. Still, an unbridled inflation can interfere with production and disrupt the plans of the military and civilian state bureaucracies. Accordingly, state intervention is extended wherever necessary, without any objections from contemporary American financiers, further circumscribing the area within which private capital is permitted by its own state to function. An excellent example is the recent decision to make the government the sole importer of rubber and tin. As Wilson's first quarterly report states (*The New York Times*, April 2, 1951): "By designating Government agencies to act as exclusive importers of commodities, such as rubber and tin, and by working in international commodity committees to allocate scarce materials among free countries, we are helping to end the current scramble for these materials which has forced their prices unnecessarily high." The *international* aspects of the Permanent War Economy are yet another reason why increasing state intervention is mandatory for companies in the National City Bank study is shown in Table VIII-B.

Impressive as is the percentage margin on sales, even more spectacular is the return on net assets. While the performance for leading manufacturing corporations as a whole confirms the results of the S.E.C. study previously cited in Table VII, with an increase in return on net assets from 13.9 per cent in 1949 to 17.1 per cent in 1950, it is interesting to note that the 65 chemical companies increased their return on net assets from 17.1 to 21.3 per cent, and the 26 auto and truck companies went from 30.2 to 32.3 per cent. Thus, for a corporation like General Motors, the most terrific profit-maker in the history of American capitalism, invested capital is paid for every three years!

In every category except finance the return on net assets rose from 1949 to 1950, with the grand total for the entire 3,304 leading corporations rising from 11.0 per cent to 13.3 per cent, which is an increase of over 20 per cent in the rate of return, despite an increase of $6.5 billion in net assets.

On the assumption that all capital invested and reinvested is employed in production, the comparison between the return on sales with the return on net assets indicates the turnover of capital and its different rates among major industries. "The shorter the period of turnover," says Marx (*Capital*, Vol. III, Kerr ed., p. 85), "the smaller is the fallow portion of capital as compared with the whole, and the larger will be the appropriated surplus value, other conditions remaining the same." Although it would be preferable to obtain the rate of turnover on capital by dividing total sales by total invested capital, the same result can be obtained by dividing the percentage return on net assets by percentage margin on sales. Inasmuch as the difference between capital turnover in 1950 and in 1949 is negligible, we present below merely the turnover times for major industrial categories, based on Table VIII-B, in 1950:

Industrial Group	*Turnover in 1950*
Manufacturing	2.2
Mining, Quarrying	1.2
Trade (retail and wholesale)	3.9
Transportation	0.7
Public Utilities	0.7
Amusements, services, etc.	1.9
TOTAL ALL GROUPS	1.7

In other words, for the companies contained in the National City Bank study as a whole, capital was turned over 1.7 times in 1950, or about every seven months. The variation among industrial groups is extreme, ranging all the way from the slow turnover time of 0.7 in such heavy fixed capital industries as transportation and public utilities to the very rapid turnover of 3.9 in retail and wholesale trade, where a tremendous volume of business can be done with a relatively small capital investment as capital turns over once in almost every three months. This, of course, is another reason why calculating the rate of profit solely with reference to sales is completely misleading. For total manufacturing, the turnover is 2.2, but for autos and trucks the turnover time is 3.6, indicating why the automobile industry is so profitable.

THE BOURGEOISIE AS A CLASS recognizes, although with considerable reluctance, that government planning and state intervention and compulsory controls are necessary as a matter of survival if the aims of the Permanent War Economy are to be fulfilled. As Truman stated in the President's Economic Message to Congress of January 12, 1951: "A defense emergency requires far more planning than is customary or desirable in normal peacetime. The military build-up is a planned effort. The mobilization of industrial support for this military build-up is a planned effort. The industrial cutbacks and civilian restraints, necessary to achieve military and economic mobilization, are planned efforts. . . . In these critical times, it is recognized that Government must assume leadership in this planning. It has the prime responsibility for national security. It has access to the basic information. The most important operation toward this end is the broad programming of various major requirements; the balancing of these requirements against supply; and the development of policies to satisfy needs according to priority of purpose."

These are the functions that under capitalist theory are normally reserved for prices and the market economy. That the market increasingly atrophies as a regulator of production or allocator of resources compelling increasing state intervention is the most distinctive change in the *modus operandi* of capitalism as the war economy develops. The question logically arises: why cannot voluntary controls work? Charles E. Wilson, defense mobilization director, gave a brief and direct answer to this question in a speech reported in *The New York Times* of January 18, 1951: "What about our economy in the face of such expansion, such expenditures, such use of materials? How do we keep it from running away? There is only one answer—controls. I hate the word—so do you. But there is no other way. *Voluntary methods will not work. That has been proven.*" (Italics mine—T.N.V.) In other words, experience has shown that appeals to loyalty, patriotism, etc., are no substitute for the state power of coercion.

Practical experience has thus gone a long way toward reconciling the bourgeoisie to increasing state intervention, especially when the ratio of war outlays to total production exceeds ten per cent. As that arch exponent of *laissez-faire* capitalism, Ludwig von Mises, expresses the alternative (*Economic Planning*, 1945, p. 13): "If the market is not allowed to steer the whole economic apparatus, the government must do it." To be sure, von Mises argues that even in wartime, if the "right methods" are used, controls are unnecessary (*Bureaucracy*, 1944, pp. 30-31):

> It has been objected that the market system is at any rate quite inappropriate under the conditions brought about by a great war. If the market mechanism were to be left alone, it would be impossible for the government to get all the equipment needed. The scarce factors of production required for the production of armaments would be wasted for civilian uses which, in a war, are to be considered as less important, even as luxury and waste. Thus it was imperative to resort to the system of government-established priorities and to create the necessary bureaucratic apparatus.
>
> The error of this reasoning is that it does not realize that the necessity for giving the government full power to determine for what kinds of production the various raw materials should be used is not an outcome of the war but of the methods applied in financing the war expenditure.
>
> If the whole amount of money needed for the conduct of the war had been collected by taxes and by borrowing from the public, everybody would have been forced to restrict his consumption drastically. With a money income (after taxes) much lower than before, the consumers would have stopped buying many goods they used to buy before the war. The manufacturers, precisely because they are driven by the profit motive, would have discontinued producing such civilian goods and would have shifted to the production of those goods which the government, now by virtue of the inflow of taxes the biggest buyer on the market, would be ready to buy.
>
> However, a great part of the war expenditure is financed by an increase of currency in circulation and by borrowing from the commercial banks. On the other hand, under price control, it is illegal to raise commodity prices. With higher money incomes and with unchanged commodity prices people would not only not have restricted but have increased their buying of goods for their own consumption. To avoid this, it was necessary to take recourse to rationing and to government-imposed priorities. These measures were needed because previous government interference that paralyzed the operation of the market resulted in paradoxical and highly unsatisfactory conditions. Not the insufficiency of the market mechanism but the inadequacy of previous government meddling with market phenomena made the priority system un-

turn, assuming maintenance of the tax rates in existence at that time, a capitalist would receive back his entire investment in a manufacturing enterprise in less than six years. To match a performance of this kind one must return to the earlier days of capitalism when it was in its ascendancy. Such a rate of return, almost twenty years after American capitalism entered the permanent crisis of world capitalism, is a tribute not only to the effectiveness of the Permanent War Economy in preserving capitalism, but also to the enormous inner strength and productive capacity of American capitalism.

Unfortunately, the S.E.C. study does not go beyond 1947. We can, however, turn to the annual study of National City Bank of New York to obtain a reliable picture of current profits of leading corporations. To facilitate examination, we have divided the data contained in the National City Bank's *Monthly Letter* of April 1951 into two tables. In Table VIII-A, we present the data comparing profits after taxes and book net assets (net worth) in 1950 with 1949.

TABLE VIII-B

RATE OF PROFIT OF LEADING CORPORATIONS IN 1950 COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.*

Number of Companies	Industrial Groups	% Return on Net Assets† 1949	% Return on Net Assets† 1950	% Margin on Sales 1949	% Margin on Sales 1950
(45)	Petroleum Products	13.2%	14.9%	9.9%	10.8%
(55)	Iron and Steel	11.6	15.3	7.2	8.1
(65)	Chemical Products	17.1	21.3	10.3	11.7
(26)	Autos and Trucks	30.2	32.3	8.9	8.9
1,693	Total Manufacturing	13.9	17.1	6.8	7.7
98	Total Mining, Quarrying	12.0	15.0	12.3	12.6
178	Total Trade (Retail and Wholesale)	13.4	14.8	3.3	3.8
248	Total Transportation	3.4	5.7	4.8	7.7
293	Total Public Utilities	8.8	9.8	11.9	13.1
99	Total Amusements Services, etc.	9.9	10.5	4.8	5.7
695	Total Finance	9.1	9.0	—	—
3,304	GRAND TOTAL	11.0	13.3	6.6	7.7

*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

As MEMORANDA ITEMS, WE HAVE selected the four manufacturing industries that show the greatest net profit after taxes. These are the pillars of heavy industry. Their performance in 1949 is clearly comparable to 1947 (and 1948 was even a better profits year than 1947 or 1949), but in 1950 it is breathtaking. Forty-five petroleum companies increased their net profits after taxes from $1,413,000,000 in 1949 to $1,730,000,000 in 1950, an increase of 22 per cent. Fifty-five iron and steel corporations increased their net profits after taxes from $555,000,000 in 1949 to $786,000,000 in 1950, an increase of 41 per cent. Sixty-five chemical concerns increased their net profits after taxes from $543,000,000 in 1949 to $743,000,000 in 1950, an increase of 37 per cent. Twenty-six automobile companies increased their net profits after taxes from $857,000,000 in 1949 to $1,054,000,000 in 1950, an increase of 23 per cent.

For 1,693 leading manufacturing corporations, net profits after taxes increased from $7,046,000,000 in 1949 to $9,288,000,000 in 1952, an increase of 32 per cent. No wonder, then, that a special joint study of the S.E.C. and Federal Trade Commission (summarized in *The New York Times* of April 27, 1951) reports that: "Profits of manufacturing corporations touched the highest point in history during 1950. . . . The report disclosed that the 1950 net income of the corporations before payment of Federal taxes was 61 per cent higher than in 1949, or $23,200,000,000, compared with 1949's total of $14,400,000,000. Net income after taxes of manufacturing corporations in 1950 was estimated at about $12,900,000,000, or 43 per cent more than in 1949." The study shows that this phenomenal profit performance occurred despite an increase of almost 100 per cent in provision for Federal taxes.

The joint study also shows that the larger the assets, the smaller the rate of increase in net profits after taxes, again confirming the Marxian analysis of the results of capital accumulation. Those companies "with assets of $750,000 or less showed an average profit increase in 1950 over 1949 of 106 per cent." At the other end of the scale, "those of $100,000,000 and over averaged 32 per cent (increase in net profits after taxes in 1950 compared with 1949)." The previous record year of 1948 was exceeded by 11 per cent.

Returning to the National City Bank study, the percentage increase in net income after taxes in 1950 over 1949 for leading corporations ranges all the way from eight per cent for 695 finance companies to 73 per cent for 248 firms engaged in transportation. Thus, for the grand total of 3,304 companies included in the study, net profits after taxes rose from $10,468,000,000 in 1949 to $13,563,000,000 in 1950, an increase of 30 per cent. The book net assets of these same corporations rose from $95.4 billion in 1949 to $101.9 billion in 1950, with manufacturing representing about half the number of companies and an equivalent portion of total capital investment.

The rate of profit for these same

TABLE VIII-A

MASS OF PROFIT OF LEADING CORPORATIONS IN 1950 COMPARED WITH 1949, ACCORDING TO NATIONAL CITY BANK OF N. Y.*

Number of Companies	Industrial Groups	Reported Net Income After Taxes 1949 (Millions of Dollars)	Reported Net Income After Taxes 1950 (Millions of Dollars)	Increase % 1949 to 1950	Book Net Assets as of Jan. 1† 1949 (Billions of Dollars)	Book Net Assets as of Jan. 1† 1950 (Billions of Dollars)
(45)	Petroleum products	$1,413	$1,730	22%	$10.7	$11.6
(55)	Iron and steel	555	786	41	4.8	5.1
(65)	Chemical Products	543	743	37	3.2	3.5
(26)	Autos and trucks	857	1,054	23	2.8	3.3
1,693	Total manufacturing	7,046	9,288	32	50.7	54.4
98	Total mining, quarrying	219	282	29	1.8	1.9
178	Total trade (retail and wholesale)	577	679	18	4.3	4.6
248	Total transportation	503	873	73	15.0	15.2
293	Total public utilities	1,066	1,300	22	12.0	13.3
99	Total amusements services, etc.	93	102	10	0.9	1.0
695	Total finances	964	1,040	8	10.6	11.6
3,304	GRAND TOTAL	10,468	13,563	30	95.4	101.9

*National City Bank of New York, *Monthly Letter*, April 1951.

†"Net assets at beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values," thereby implying an abnormally high return on net worth.

fewer private hands and all the social consequences that then unfold. The trend in the organic composition of capital under the Permanent War Economy can easily be calculated from the data in Table VI, and we present below the rates for the years of significant change:

Year	Composition of Capital
1939	72.2%
1941	73.7
1944	68.0
1946	74.8
1948	77.6
1949	76.6
1950	77.5

The mass of the means of production were thus 72.2 per cent of the total capital, including labor power, employed in production in 1939. The percentage rose slightly, in conformity with the generally observed tendency toward an increasingly high organic composition of capital, to 73.7 per cent in 1941. There then followed a perceptible decrease, during American participation in World War II, to a nadir of 68 per cent in 1944. A slight increase in 1945 was followed by a substantial increase in the composition of capital in 1946, as peacetime output resumed, with the upward trend continuing until a new peak of 77.6 per cent was attained in 1948. A slight slump during the recession of 1949 was only preliminary to virtual restoration of the 1948 peak in 1950. The organic composition of capital has thus increased by more than seven per cent between 1939 and 1950, and by 14 per cent from 1944 to 1950.

The decline in the organic composition of capital during the war years is not surprising in view of the huge increase in the ratio of war outlays to total output, for it can be directly traced to the decline in the productivity of labor that takes place in wartime, to the physical necessity of increasing output through abnormal reliance on manpower, to the drastic decline in net private capital formation, and to the vicissitudes of the class struggle that placed the proletariat in a position to accomplish a slight reduction in the rate of surplus value. As a matter of fact, all these factors operated in the United States from 1942-1945; the only wonder is that the decline in the organic composition of capital during World War II was not greater.

Since, at an 80 per cent composition of capital, four dollars of means of production are needed to yield a wage of one dollar to the average worker, the relative diminution in the variable constituent of capital as capital accumulates makes it increasingly difficult under capitalism to employ the entire available labor force. This pressure continues to exert itself even though the Permanent War Economy has, in its own way, as previously explained, "solved" the problem of unemployment. Precisely where the breaking point is likely to be, no one can say, but it is clear that the composition of capital is already dangerously high and constitutes a sword of Damocles, hanging over the unsuspecting head of such a highly-geared capitalist economy that in a few years it is possible to produce all the automobiles, television sets, etc., that can be sold under capitalist conditions of production. If, therefore, only a very high ratio of war outlays to total output can reduce the composition of capital or, at least, arrest the tendency toward a constantly increasing composition of capital, then the economic motives for American imperialism to engage in such activities in foreign policy as warrant an increase in war outlays, even if the ultimate consequence is all-out war, are laid bare for all those with eyes to see who wish to see.

It is not necessary to rely on our calculations and derived figures to conclude that the Permanent War Economy has yielded an unprecedented profit bananza for the bourgeoisie, restoring both the mass and rate of profit to record-breaking levels. We can first look at the results of a study by the Securities and Exchange Commission for manufacturing corporations listed on the stock exchange. This study, covering the years 1938 to 1947, is indicative of what has happened to the largest aggregates of capital. Its results are embodied in Table VII.

It will be seen that the rate of profit on sales is consistent with the ratios that we developed earlier in this article. Net profit before income taxes for these leading manufacturing corporations was only $1.6 billion in 1938, with net profit after taxes $1.3 billion. A spectacular rise until 1944 then took place, followed by a decline in 1945 and in 1946, and then the reaching of new heights in net profits before taxes in 1947. At more than $10 billion in 1947, these 1,306 manufacturing corporations averaged a net profit before income taxes in excess of $7.7 million, which was about four times the level of 1939. Even after income taxes, these principal manufacturing corporations earned $6.4 billion in 1947, or almost five million dollars on the average. Despite the rise in corporation income taxes, this was three times the level of 1939!

The return on net worth, which represents invested and reinvested capital, is by far the most interesting set of figures in the table as, without reference to the turnover of capital, the return on net worth indicates the expansive qualities of capital. On a before-income-tax basis, the rate of return on net worth rose from 6.4 per cent in 1938 and 10.2 per cent in 1939 to a wartime peak of 27.9 per cent in 1943 and then declined to 17.6 per cent in 1946, but immediately rose again to 27.4 per cent in 1947. The confirmation of our earlier conclusions is readily apparent.

The rate of return of net profits *after* income taxes on net worth is the final proof that our contentions are completely accurate with respect to the impact of the Permanent War Economy on profits. From a rate of 5.1 per cent in 1938 and 8.3 per cent in 1939, the return on investments in major manufacturing corporations rose to 12 per cent in 1941, then leveled off during the war at a rate between 9.6 and 10.1 per cent, rose to 11.9 per cent in 1946 and jumped to 17.2 per cent in 1947! At the 1947 rate of re-

TABLE VII

MASS AND RATE OF PROFIT OF LISTED MANUFACTURING CORPORATIONS, ACCORDING TO S.E.C. SURVEY, 1938-1947*

	NET PROFIT AFTER INCOME TAXES			*NET PROFIT BEFORE INCOME TAXES*		
Year	*Amount (Billions of Dollars)*	*As A % of Sales*	*As A % of Net Worth†*	*Amount (Billions of Dollars)*	*As A % of Sales*	*As A % of Net Worth†*
1938	$1.6	6.6%	6.4%	$1.8	5.3%	5.1%
1939	2.5	9.5	10.2	2.1	7.7	8.3
1940	3.7	12.2	14.7	2.6	8.4	10.1
1941	6.4	15.0	24.7	3.1	7.3	12.0
1942	7.0	12.7	25.7	2.6	4.8	9.6
1943	7.9	11.1	27.9	2.8	3.9	9.7
1944	8.2	10.4	27.4	3.0	3.8	10.1
1945	6.4	8.6	19.9	3.1	4.2	9.6
1946	6.0	9.6	17.6	4.1	6.5	11.9
1947	10.1	11.7	27.4	6.4	7.4	17.2

*Securities and Exchange Commission Survey Series Release No. 151, published April 27, 1949, covers manufacturing corporations listed on the stock exchange, with the number of companies varying from 1,013 in 1938 to 1,306 in 1947.

†Net worth is calculated as of the beginning of the year.

aside from periods of all-out war, when the increase is even more striking, manufacturing has grown at a rate 20 per cent faster than distribution. The propensity of capitalism to dig its own grave through increasing industrialization and greater proletarianization of the labor force is thus strengthened under the Permanent War Economy.

To noncorporate sales for manufacturing, retail and wholesale trade, it was necessary to add sales or receipts for the remainder of unincorporated business activity, such as gross farm income, unincorporated construction activity, and the like. While there may be some duplication in the figures, and even some omissions, the gross figure for unincorporated business shown in column two of Table VI appears to be reasonable both as to level and trend.

THE SUMATION OF CORPORATE AND noncorporate sales or receipts yields the gross value of production, or *c* plus *v* plus *s*. *This* magnitude, together with its components, and the average rate of profit for all industry from 1939 to 1950 are shown in Table VI.

Constant capital was derived, as explained in the footnote to column four, by subtracting net national product (which represents the sum of variable capital and surplus value) from the gross value of production. An alternative method, since the magnitude of variable capital and surplus value were previously derived, would have been to subtract surplus value from the gross value of production, thereby obtaining total capital, i.e., the summation of constant and variable capital. Then, from this last figure, variable capital could have been subtracted in order to obtain constant capital. The results would naturally be identical.

It is the relationship between the magnitude of surplus value and the magnitude of total capital that determines the rate of profit, according to Marx, and for all industry, including the portions of surplus value paid out in the form of interest, rent, etc., in addition to that which is specifically labeled profits, he is unquestionably correct. The average rate of profit, shown in column eight of Table VI, thus portrays the actual performance of American capitalism under the Permanent War Economy.

Three facts of considerable importance emerge from this analysis of the average rate of profit: (1) The level of the average rate of profit is almost three times that shown in Table IV, confirming the easily observed fact that the capitalist who obtains profit must pay substantial tribute to the more parasitic members of the capitalist class who collect interest, rent, royalties, and absurdly large salaries (of course, in many cases, the division among capitalists as to the form and method of appropriating surplus value is not nearly as clear-cut as herein suggested). (2) The Permanent War Economy not only succeeded in restoring the profitability of American capitalism, but actually managed to increase the average rate of profit until 1944, i.e., there is a definite correlation between the ratio of war outlays to total output and the average rate of profit. An increase of 30 per cent in the average rate of profit, as occurred between 1939 and 1944-1945 is, in some ways, even more significant than the fact that the true average rate of profit for all industry reached a peak of one-third, for it is conclusive evidence that state intervention has as its major objective guaranteeing the profits of the bourgeoisie. (3) The Marxian law of the falling average rate of profit reasserts itself following the end of World War II, although it is significant that the maintenance of a ten per cent ratio of war outlays to total output is sufficient, in the short run at any rate, to maintain the average rate of profit at a higher level than existed in 1939 or even in 1940.

The data contained in Table VI represent the "guts" of the economic performance of American capitalism under the Permanent War Economy. From 1939 to 1950, the mass of surplus value rose from almost $40 billion to an estimated $142 billion, a rise of 256 per cent, the largest increase of any of the components of economic performance. Virtually keeping pace was the increase in the magnitude of constant capital, which rose from $112.3 billion in 1939 to an estimated $396.8 billion in 1950, a rise of 253 per cent. The gross value of total output, as measured by gross sales or receipts, naturally comes next in rate of growth, increasing from $195.5 billion in 1939 to an estimated $653.8 billion in 1950, a rise of 234 per cent. Then follows total capital, which rose from $155.6 billion in 1939 to an estimated $511.8 billion in 1950, a rise of 229 per cent. In last place is the increase in the magnitude of variable capital, which rose from $43.3 billion in 1939 to an estimated $115 billion in 1950, a rise of but 166 per cent. All of these changes combine to yield an increase over the first twelve years of the Permanent War Economy of eight per cent in the rate of profit.

In the process of capital accumulation, it is, however, as Marx observes, "the composition of the total social capital of a country" that is crucial in understanding the economic laws of motion that prevail. The organic composition of capital relates the growth in constant capital to total capital, and it is the increasingly high organic composition of capital, as constant capital increases relative to variable capital, that threatens capitalism with self-destruction through concentration and centralization of the social means of production in fewer and

TABLE VI

AVERAGE RATE OF PROFIT FOR ALL INDUSTRY, 1939-1950

(Dollar Figures in Billions)

Year	Corporate Sales* (1)	Noncorporate Sales or Receipts (2)†	$c+v+s$ Gross Sales or Receipts (Col. 1 plus Col. 2) (3)	c Constant Capital (4)**	v Variable Capital (5)‡	$c+v$ Total Capital (Col. 4 plus Col. 5) (6)	s Surplus Value (7)‡	$s/c+v$ Average Rate of Profit (Col. 7 ÷ Col. 6) (8)
1939	$120.8	$74.7	$195.5	$112.3	$43.3	$155.6	$39.9	25.6%
1940	135.2	80.5	215.7	122.7	46.7	169.4	46.3	27.3
1941	176.2	99.8	276.0	158.9	56.6	215.5	60.5	28.1
1942	202.8	126.9	329.7	178.1	72.3	250.4	79.3	31.7
1943	233.4	148.7	382.1	198.4	89.7	288.1	94.0	32.6
1944	246.7	164.7	411.4	209.6	98.8	308.4	103.0	33.4
1945	239.5	180.0	419.5	216.7	98.1	314.8	104.7	33.3
1946	270.9	202.5	473.4	274.5	92.6	367.1	106.3	29.0
1947	347.8	203.7	551.5	333.1	98.8	431.9	119.6	27.7
1948	381.3	226.5	607.8	366.1	105.4	471.5	136.3	28.9
1949	359.7	223.1	582.8	346.0	105.6	451.6	131.2	29.1
1950¶	409.0	244.8	653.8	396.8	115.0	511.8	142.0	27.7

*From Table III, column one.

†To noncorporate retail, wholesale and manufacturing sales, shown in Table V, were added gross farm income, noncorporate and government construction activity, national income originating in finance, insurance and real estate, services, and government and government enterprises, and a miscellaneous factor based on the number of active proprietors in agricultural services, forestry and fisheries, mining, transportation, and communications and public utilities.

**Derived by substracting net national product, shown in column six of Table I, from column three.

‡From Table VIII of previous article in March-April 1951 issue of *The New International*.

services reached in depression years the level that exists in the postwar period, the significant change that has occurred is the fantastic growth in the proportion going to the Federal government, i.e., the state. From an insignificant level of 1.3 per cent in 1929, it quadrupled during the New Deal, reaching a peak of 6.2 per cent in 1938, undoubtedly sparked by the realization that the "recession" of 1938 was largely due to the decline in state expenditures in the latter half of 1937. We are already familiar with the gigantic rise in war outlays that resulted from World War II, accompanied by a relative decline in the rôle of state and local government expenditures. The decisive change that has taken place is reflected in the fact that the ratio of Federal government purchases to total output in the postwar period markedly exceeds the prewar period. A ratio of 8 or 9 per cent, virtually all of which is accounted for by direct and indirect war outlays, in its own way signals the advent of a new epoch in the history of capitalism.

Without continuing war outlays and state foreign aid, and in the long run these must be on an ever-increasing scale, the vaunted economy of American imperialism would grind to an abrupt halt. Roosevelt and Truman are absolutely correct when they reply to their bourgeois critics with the statement that they have saved capitalism. That capitalism is more "prosperous" than it has ever been, as Truman is fond of boasting, requires a very important qualification. It is true, as we have demonstrated, that profits reached an all-time high in 1950 and that the Permanent War Economy operates so as virtually to guarantee the profits of the bourgeoisie as a class.

The "prosperity" of the Permanent War Economy, however, is rather precarious. The state decides not only how many airplanes, tanks and munitions in general shall be produced, but of necessity determines how many automobiles, refrigerators, tractors, *etc.*, shall be produced and, within limits, the prices at which they shall be sold. From a capitalist point of view, the economic development under the Permanent War Economy must be viewed as unhealthy. The patient achieves a form of recovery from what may be likened to shock therapy. But the treatment is far from painless and even the doctors cannot say whether the cure will be lasting.

The official hope is that "another two years or so" of controls will see American military output achieving sufficient magnitude so that the economy can sustain both the necessary level of war outlays together with a high level of civilian outlays *without continued controls.* This is clearly a consummation devoutly to be wished, but impossible of realization. An economy devoting 20 per cent or thereabouts of total output to war outlays cannot function without large-scale state intervention, requiring direct and indirect controls.

So powerful has been the development of the productive forces under American capitalism, that just as there is periodically an overproduction of the means of production and an overproduction of the means of consumption, it is not excluded that there can be an overproduction of the means of destruction under the Permanent War Economy. Normally, this does not happen in a war economy precisely because war consumes means of production, consumption and destruction more rapidly than they can be produced. Yet, prior to V-E Day, with a few exceptions, there had been accumulated a sufficient stockpile of many types of munitions to permit cutbacks and to enable the armed forces to fight for many months without additional production.

It was not only the dismantling of the war machine in large measure that produced the notable American inferiority in weapons *vis-à-vis* Stalinist imperialism at the outbreak of the Korean war. It was also, and perhaps more importantly, the high rate of obsolescence that obtains in the means of destruction. This gap is clearly in process of being overcome at a fairly rapid rate. Assuming, therefore, that large-scale warfare or another "Korea" does not break out, or that an armistice is concluded in Korea, the question arises whether American imperialism will not reach a point in the next few years where the warehouses will be bulging with all types of means of destruction and there will be no place to use them.

Such a development is a possibility. Present evidence, however, indicates that the high rate of military obsolescence, together with the talked-about expansion in the production of "fantastic" weapons, should offset for several years the tendency to accumulate an oversupply of munitions in the absence of total war.

A sharp reduction in war outlays in the near future is therefore unlikely and would in a remarkably short time cause a collapse of the economy. Moreover, it would certainly invite the very aggression of Stalinist imperialism that the military build-up is presumably designed to prevent. It may therefore be expected that American imperialism will continue on the only course open to it until the vast collision with Stalinist imperialism (World War III) takes place.

A STATE MONOPOLY CAPITALIST régime in the true sense of the term has developed under the impact of depression and war. It bears a certain resemblance to Bonapartism, but Bonapartism has been traditionally applied by Marxists to a temporary régime of crisis, which poses the issue of revolution or counter-revolution and which marks the end of parliamentarism. As Trotsky puts it in *Whither France?*, "The essence of Bonapartism consists in this: basing itself on the struggle of two camps, it 'saves' the 'nation' with the help of a bureaucratic-military dictatorship." There is, of course, as yet no bureaucratic-military dictatorship in Washington, although there are possible tendencies in that direction. Nor can the present régime, given the tempo at which world history moves, be classified as temporary. There are, however, numerous features of state monopoly capitalism that possess all the earmarks of clearly discernible trends, and which warrant brief mention in this penultimate article in our series on the Permanent War Economy.

In his excellent analysis of the relationship between Bonapartism and fascism in *The Only Road for Germany,* Trotsky observes that: "As soon as the struggle of the two social strata —the haves and the have-nots, the exploiter and the exploited—reaches its highest tension, the conditions are given for the domination of bureaucracy, police, soldiery. The government becomes 'independent' of society. Let us once more recall: if two forks are stuck symmetrically into a cork, the latter can stand even on the head of a pin. That is precisely the schema of Bonapartism. *To be sure, such a government does not cease being the clerk of the property-owners. Yet the clerk sits on the back of the boss, rubs his neck raw and does not hesitate at times to dig his boots into his face.*" (Italics mine—T. N. V.)

For the time being the fascist threat is absent, nor are the "soldiery" in a position of domination. Yet the domination of bureaucracy and the growing power of the police (the F.B.I.) are increasingly evident. As we have remarked earlier, the inter-marriage between the big bourgeoisie and the upper echelons of the military bureaucracy is a basic characteristic of the Permanent War Economy. An important research project is available to someone ambitious enough to document this relationship in every detail. It suffices, however, to point out that innumerable officers were commissioned from the ranks of big business, such as "Generals" Knudsen and Sarnoff, and that many military leaders have become "captains of industry," as, for example, Generals Somervell and Clay. Of decisive importance is the network of standing committees and organizations relating to ordnance and military procurement needs. These exist in every industry whose output is important to the war machine and is basic to the military planning of all parts of the armed services. Meetings are held periodically, information on latest military techniques and their impact on production requirements is exchanged, and pilot contracts are continually being let to facilitate research and development. Above all, industry is constantly being geared to achieve rapid and complete mobilization in the event of a supreme crisis.

In the event that American imperialism is constrained to maintain more or less indefinitely an armed force of 3,500,000 or more, the power of the military in its daily impact must grow and the alliance between the military caste and the big capitalists will solidify until the day may come when we can truly speak of a "Europeanization" of American politics. This entire development alone is ample reason for describing the present régime as state monopoly capitalist. There are, however, other and perhaps even more significant reasons for stressing this aspect of the Permanent War Economy.

In passing, it should be noted that much of the right-wing criticism of state monopoly capitalist trends is garbed in the raiments of liberalism. Consider, for example, General MacArthur's Cleveland speech of September 6, 1951, in the course of which he stated that there has been "a steady drift toward totalitarian rule . . . a persistent . . . centralization of power in the Federal government . . . ravenous effort to further centralize the political power . . . a determination to suppress individual voice and opinion which can only be regarded as symptomatic of the beginning of a general trend toward mass thought control." At an another point in the political spectrum comes the charge of Sidney Hook (*New York Times*, September 30, 1951) that we are experiencing a species of "cultural vigilantism" that threatens the foundations of our democratic structure. Such criticism, regardless of source, possess general validity. Their widespread character is symptomatic of the inroads already made in the body politic by the growing power of the state.

It is above all in the handling of strikes and labor disputes that the monopoly capital character of the state becomes clear. Especially noteworthy has been the rôle of the state in the various rail strikes, with the Army actually assigned responsibility for running the railroads. There was a time not so long ago when the mere presence of armed forces in a strike, when the soldiers were so to speak performing a picketing function, evoked widespread criticism of threats of fascism and charges of military dictatorship. We have indeed traveled far along the road away from traditional bourgeois democracy when military force can be substituted for the normal process of the class struggle without even raising an outcry of "strikebreaker" in more than the radical press.

With production plans vital to the operations of the war economy, a strike in almost any basic industry immediately threatens to disrupt the war machine or vital war preparations. Hence, the appeals to national patriotism, the resort to fact-finding devices and, where necessary, the mobilizing of public opinion to support intervention by the police power of the state, whether it be coal, transport, airplanes, copper or other crucial industry.

The very technique used to control the class struggle, the widespread establishment of tri-partite wage boards, is in essence a device of monopoly capital. The state, represented by the "public" representative, attempts to resolve each dispute through the technique of arbitration, with the state posing as disinterested and above classes. In those cases where this classless approach fails to work, the power of another arm of the bourgeois state is invoked—the courts, through the use of the injunction. Finally, when no other card is left to play, the state shows that it is still the "clerk of the property-owners" by using its military-police power. Roosevelt was a past master in the use of this technique. But regardless of personalities it is the underlying trend that is significant. The erection of the tri-partite labor-board approach to solving specific class struggles into an entire system, with philosophic justification and techniques for handling every variety of dispute, is more than ample justification for planning the label "state monopoly capitalist" on the political régime under which the Permanent War Economy functions.

The labor bureaucracy willingly accepts its rôle as junior partner in the régime. It balks only when it either feels that it is being "unfairly" discriminated against in the handing out of administrative positions of power and prestige, or when the pressure from the ranks, under the lash of inflation, compels it temporarily to assert a position of independence. Despite these truths, the abortive history of the United Labor Policy Committee is not without interest.

The United Labor Policy Committee was organized in December, 1950, representing all segments of organized labor except Lewis' United Mine Workers. Its first statement of December 20, 1950, spoke eloquently of "justice and workability" in stabilization measures, but the heart of its concern was its basic objective of equal representation in the organs of the state bureaucracy:

> We are fully aware [state the representatives of the A. F. of L., the C.I.O., the Railway Labor Executives Association, and the I.A.M.] of the grave emergency confronting our nation. We dedicate ourselves to help make our country strong and to use that strength to bring peace and abundance to mankind.
>
> *It is imperative that labor be granted active participation and real leadership in every important agency in our mobilization effort. We regret that to date labor has not enjoyed opportunity for full participation in the mobilization effort.*
>
> Free labor can make its fullest contribution only if it is permitted to serve at *all* levels of defense mobilization both with respect to *policy* and *administration.*
>
> No one group has a monopoly of ideas in the mobilization of our resources. Each group has much to offer and coöperatively we can defeat the world-wide challenge of dictatorship. (Italics mine—T. N. V.)

This bid for changing the rôle of junior partnership into one of equal partnership for labor fell on deaf ears, as how could the bourgeoisie be expected to take seriously the position of a labor bureaucracy that appeared to be quite satisfied with its rôle of junior partner in World War II. The Administration, of course, should have had the political savvy to recognize that this bid for increased status stemmed not only from the hurt feelings of the labor bureaucracy, but also reflected dissatisfaction by the vast majority of trade-union workers with the increasing burden that inflation was casting on them. No one, however, has accused the Truman administration of genuine political sagacity. It was therefore quite appropriate for the Wage Stabilization Board to issue Regulation No. 6 on February 16, 1951, establishing a 10 per cent formula that jeopardized both escalator clauses and productivity formulae in union contracts.

The promulgation of Regulation No. 6 immediately prompted the United Labor Policy Committee to declare that a crisis existed and to withdraw from the Wage Board. We assume that our readers are generally familiar with the document issued by the U.L.P.C. on this occasion and therefore only reproduce the more interesting passages:

> *The price-stabilization program is a cynical hoax on the American people. . . .*
>
> *Profit margins are being guaranteed.* Every consideration possible is being given by government price agencies to enhance the position of business and *to protect fat profits. . . .*

The Congress is now considering a program to raise all taxes in such a manner that *people in the lower income brackets will be forced to bear a still heavier share of the tax burden*. . . .

So far, *virtually the entire defense mobilization program has been entrusted to the hands of a few men recruited from big business* who believe they have a monopoly on experience, good ideas and patriotism. . . .

This was fairly strong language from a junior partner. Consequently, when Eric Johnston, Economic Stabilization Administrator, approved Regulation No. 6 on February 27, even though it was followed on March 1st with Regulation No. 8, designed to achieve a compromise on the escalator clause question, the United Labor Policy Committee had no choice but to make good its threat. All its representatives from all phases of the administration of the war economy were withdrawn and a policy of boycott established.

The United Labor Policy Committee statement of February 28th, announcing withdrawal of all labor representatives from the war program, carries out the theme of the February 16th statement; the language is even stronger:

On Feb. 16 we announced that we had become thoroughly disillusioned with the conduct of the defense mobilization program. *We made the deliberate charge that big business was dominating the program, that the interests of the plain people of this country were being ignored and that the basic principle of equality of sacrifice in the national effort to protect freedom against Communist aggression had been abandoned*. . . . After full and complete exchanges of information, our original convictions have been more than confirmed.

We are today confronted with a price order which amounts to legalized robbery of every American consumer, together with a wage order which denies justice and fair play to every American who works for wages. The door has been slammed in our faces on the vital problem of manpower, which directly affects the workers we represent. . . .

We have also arrived at the inescapable conclusion that such representation which already has been accorded to labor in defense agencies and such further representation as is now offered are merely for the purpose of window dressing. (Italics mine—T. N. V.)

The gantlet had been thrown down by the labor bureaucracy. Moreover, Wilson was an extremely vulnerable target. A way had to be found to preserve one of the cornerstones of the state monopoly capitalist régime. In less than two weeks the formula emerged for a tri-partite 18-man board, which would have jurisdiction over all labor disputes, not only wages. Labor was willing. Gone was its indignation over "big-business domination," the "hoax" of price control, the "guarantees of profits," the iniquitous tax program, *etc*.

But industry, as represented by the Business Advisory Council, the N.A.M., and the Chamber of Commerce, did not like the deal its representatives were cooking up for it. Accordingly, it issued a statement on March 13, 1951, aimed at reasserting its senior partnership. Advocating a clearly defined wage stabilization policy, the representatives of industry declared:

This may result in a number of strikes. *It is obvious that strikes under such circumstances are not ordinary labor disputes between employers and employees; they are strikes against the government itself*, designed to coerce or induce it into making concessions.

A firm policy in dealing with such strikes is essential to the maintenance of a sound stabilization policy and to preservation of a proper respect for government itself. Such strikes should not be met with appeasement or concession. They should be handled in accordance with existing law, including, where appropriate, the national emergency provisions of the Labor-Management Relations Act. (Italics mine—T. N. V.)

It sounded like industry was ready for a showdown. Wiser heads prevailed, however, and after a month of dickering, industry announced that it would accept the 18-man wage stabilization and disputes board "under presidential request, but protesting the wisdom of the entire set-up." A compromise formula was put forward limiting the powers of the new board to recommendations in dispute cases, and another compromise was worked out with respect to manpower control. But, in so far as anti-inflation controls are concerned, labor achieved not one iota of its demands.

We have cited at some length the history of the United Labor Policy Committee, which then shortly fell apart as it had outlived its immediate usefulness in the eyes of the A.F. of L., because it is illustrative of a basic trend of state monopoly capitalism. It is also quite revealing of the rôle of the labor bureaucracy, whose indictment of big-business domination and economic inequality of the war economy remains entirely accurate, despite the victory on the question of the escalator clause.

A Marginal Note

A FRIENDLY CRITIC HAS QUESTIONED our conclusion regarding the standard of living on the ground that "empirical" evidence appears to indicate that workers are better off today than they were, say, in 1939. The statistical evidence presented, or the analysis flowing from the data, are not questioned. But there seems to be some feeling that our case has been overdrawn. After all, more workers have automobiles now than ever before. Many have television sets, which didn't exist. We admit that unemployment is at extremely low levels, etc. "How, then, is it possible," asks our critic, "for the workers to have experienced a decline in their living standards?"

In the first place, we have shown that the *average* per capita standard of living did rise—17 per cent in 1950 over 1939. We did, however, calculate a slight decline in the per capita standard of living of the working classes—to be exact, a decline of 1.3 per cent from 1939 to 1950. Of course, at the same time, there was a marked improvement in the standards of living of the farming classes, the middle classes and the bourgeoisie. Moreover, it is obvious that with such a slight decline in the standard of living of the working classes, it is quite possible to find this or that worker whose living standards have increased.

We are, of course, not aware of the "empirical" evidence referred to in apparent refutation of one of the fundamental laws of motion of the Permanent War Economy: that an increase in capital, instead of causing an increase in unemployment, is accompanied by relatively full employment and declining standards of living. We suggest, however, that the "empirical" evidence be examined a little more closely. It will be found that the increase in employment far exceeds the increase in the number of families. In other words, the average working class family currently contains a much larger number of wage earners than in 1939. This is primarily due to the inability today of most workers to survive on the basis of one income per family, which was generally typical of the pre-Permanent War Economy period.

Two and three incomes per working-class family are far from being atypical in 1951. Naturally, in many such cases, it is quite possible for the *family* income, on a real basis, to exceed that of 12 years ago. This does not in any way upset our conclusion that the rate of surplus value has increased, or any other basic conclusion. Even the possible improvement on a family basis must be tempered by consideration of the profound change in income tax laws, not so much with regard to rates as to the decrease in exemptions for dependents. The result has been that the working classes now bear the major brunt of the income tax, whereas previously they were almost totally unaffected.

Seekers after empirical evidence should also interview workers, such as teachers and other civil servants, whose incomes are relatively fixed. They are part of our data on the working classes and they have suffered a catastrophic decline in their standards of living. It should also be remembered that for every working-class family that is able to have two, three or more separate incomes, there is almost an equal number who are not in this position and who, in order to make ends meet, find the one and only income earner forced to take on a second job. This abnormal increase in labor power, solely a product of the inflation, is also encompassed in our figures. All empirical evidence that we have seen supports our general conclusions. The consumer "buying strike" of the spring and summer of this year is additional evidence that the inflation has reached a critical point and that living standards are declining. The fact that redemptions of E bonds exceed purchases, and that liquid savings in general are at extremely low levels, are genuine empirical evidence that our fundamental thesis is eminently correct.

We have digressed at this point not so much to answer our empirical critic, but to observe that the relative stability of the price level during the past six months has eased somewhat the pressure on the labor bureaucracy, but everything they said about the fraudulent price control program and the unfair tax program, *etc.*, remains true to this very day. As the ratio of war outlays to total output continues to increase, there must be a renewed upsurge of the inflationary pressure. As Wilson's third quarterly report of September 30, 1951, correctly puts it: "Despite the present relative stability a critical period in our battle against inflation lies ahead. We must anticipate and prepare for the strong inflationary pressure that will be again encountered as defense spending grows and personal and business incomes mount."

At that point, which should be reached early in 1952, the attempts to "freeze" the class struggle through tripartite labor boards may run into serious difficulties. If we base ourselves on Marxism, we should be concerned with such fundamentals as what is happening to real wages and real profits, with the basic trends in the class struggle, and not with episodic and invalid "empirical" evidence that dissolves into thin air at the first touch of reality.

CONTROL OF THE PURSE STRINGS has always been viewed by Marxists, and correctly so, as a crucial element in the power of any régime. Inasmuch as the American state must go through a tortuous process of Congressional hearings and committees before funds are appropriated, it may be objected that in this vital point there is no possible resemblance to monopoly capitalism. Such a view would be entirely superficial. In fact, one of the really distinguishing characteristics of the present state monopoly capitalist régime is the inability of the legislature to deny in general any requests of the armed forces for funds. This is obviously true in time of actual warfare. It is no less true today, when the need for haste is not as great. Aside from carping criticism against the number of oyster forks ordered by the Navy or a picayune reduction in state foreign aid, there is very little that the Congress can do in the face of a certified statement from the military that they need $60 billion worth of munitions in the next year or $100 billion in two years, or whatever the precise military requirements may be.

Even if all the details were made available, which they are not on grounds of military security in the case of atomic weapons, *etc.*, and even if a Congressman felt himself qualified to question specific military requests, it is politically hazardous for a Congressman to advocate a reduction in this or that *military* item in the face of the customary statement by a representative of the armed forces that "this is the minimum required to assure the military security of the country; we will not be responsible for military safety if less than this amount is appropriated." For all practical purposes, therefore, direct war outlays and most indirect war outlays are sacrosanct. The legislature can do little better than rubber stamp the military requests. *De facto* control of the government purse strings has passed into the hands of the state executive bureaucracy. Even in the present situation, with the Truman administration on the whole confronted with a divided and hostile Congress, the state power to obtain funds is effectively independent of any control by the elected representatives of the people.

It is thus a comparatively simple matter for the state monopoly capitalist régime to manipulate the national debt in a manner best calculated to advance its own political fortunes as well as the class interests of the bourgeoisie. The spectacular rise in the national debt has been one of the chief methods whereby inflation has been promoted and an excellent indicator of increasing state intervention in the economy. The total gross debt of the United States government for selected fiscal years (ending on June 30th) of historical significance is shown in the following tabulation:

NATIONAL DEBT FOR SELECTED YEARS
(Billions of Dollars)

Year	*Amount*
1915	$ 1.2
1919	25.5
1930	16.2
1933	22.5
1939	40.4
1945	259.1
1946	269.9
1950	257.4
1951	255.3

World War I increased the national debt by some $24 billion, with the total reaching a peak of $25.5 billion in 1919. Under the influence of the last period of genuine capitalist prosperity, the national debt then declined to $16.2 billion in 1930, the beginning of the Great Depression. Under the New Deal, the national debt rose from $22.5 billion in 1933 to $40.4 billion in 1939, as state intervention in the economy commenced in a significant way. It remained, however, for World War II to cause an unbelievable increase of $219 billion by 1945 and $229 billion by 1946, when the national debt reached a peak of $269.9 billion—the increase in the debt exceeding one year's total output at that time.

The national debt has become so large that any thought of ever paying it off has long been abandoned. The interest charges alone run to about $6 billion annually at the present time. Inasmuch as the national wealth exceeds the national debt by at least a 2:1 ratio, it may be thought that there is no danger in the existence of such a huge debt. In fact, some bourgeois economists of the Keynesian school have projected figures intended to "prove" that the United States can support a total debt, public and private, running into trillions of dollars. From an abstract point of view, it is possible to contend that the only economic limit to the size of the national debt is the ability to meet the annual interest bill. With interest rates considerably lower than what they used to be, under this approach the national debt could easily be doubled or tripled without any serious danger being encountered.

The government, however, does not borrow money merely through the device of printing bonds. If this were the case, it could simply print money—and there would be a galloping inflation of the printing press variety, where the value of the dollar would literally sink to virtually zero. Needless to say, an inflation of this type, of which there are many examples in history (Germany in 1923 being a classic case), places the question of social revolution on the order of the day. The government must sell its bonds. Approximately one-third of the national debt is held by the banks, so controlled under the Federal Reserve System that for all practical purposes they are forced to buy government bonds at the dictate of the Treasury. Under the banking system, these government bonds in the hands of the banks become the base for a tremendous expansion of bank credit, thereby feeding the fires of inflation. Moreover, in a very real sense, that portion of the national debt held by insurance companies, corporations and some individuals, represents prior accumulations of capital for which there is no profitable outlet. Of course, tax-exempt securities should be excluded from any such analysis.

While the national debt has actually declined during the first year of the Korean war, it reached a low of $254.7 billion in April, 1951. At the end of August, 1951, it was $256.7, an increase of $2 billion in four months. Further increases in the national debt may be expected as expenditures for war purposes continue to increase. With redemptions of E bonds (of which there is a total of less than $35 billion outstanding, with more than $19 billion falling due in the next four years) currently running about twice as high as new purchases, it remains to be seen whether the new savings bond drive will be sufficiently successful to prevent additional large-scale government borrowing from the banks. In the absence of a pay-as-you-go tax program, the state will naturally have no choice but to borrow the sums needed to finance war outlays.

This type of "creeping" inflation, it should be emphasized, has already reduced the purchasing power of the dollar by about 50 per cent since 1939. Until it gets out of hand, it may prove to be good politics for the incumbent administration, in so far as it generates a pseudo-prosperity conducive to corraling votes. In the long run, however, as maintenance of the Permanent War Economy becomes more and more expensive, and a greater and greater portion of the burden is thrown onto the backs of the working and middle classes, the inflation must continue, bringing with it the threat of a complete capitalist breakdown in general bankruptcy, *i.e.,* unless war does not intervene first. Of course, long before general bankruptcy is imminent, the class struggle will erupt in a new and violent form as the impoverished segments of the population led by the proletariat attempt to throw off their intolerable burdens.

THE NATURE OF THE WAR against Stalinism being waged by the American bourgeoisie is such that anti-bourgeois-democratic aspects continually receive encouragement and nourishment. The aim of the American capitalist class is peace, *but on a capitalist foundation.* This not only dictates the necessity of destroying Stalinism root and branch, but of guarding against socialist developments in England, France and Germany, as well as preventing the nationalist and colonial revolutions in Asia from developing in an anti-capitalist direction. While the current political perspective is one of "neither peace nor war," American imperialism is fully aware that the only method on which it can rely is the use of overwhelming military might.

Wherein, it may be asked, does this differ from World War II and the American aim to destroy German Nazi and Japanese militarism and imperialism? With respect to the mobilization of military force, there is little difference, except perhaps in a quantitative sense. Long and bitter as was World War II, American imperialism will be faced with an even more formidable foe in Stalinist imperialism. We are fully aware of American superiority in steel production, oil production, transport, and presumably in atomic energy developments. Yet, barring internal political collapse, there can be little doubt that Stalinism will be capable of mobilizing greater military power than the Nazis could at their peak. Moreover, Stalinism does not fight solely with military methods; it also employs political methods on a scale that neither the Germans nor Japanese could begin to approach.

The American bourgeois struggle against Stalinism may therefore require a greater proportion of output devoted to war outlays over a much longer period than was the case in World War II. If such be the case, it can only strengthen all the tendencies that we have already observed to be at work under the Permanent War Economy.

There can be no question, however, about the contrast between World Wars II and III on the political front. Fundamentally, the internal problem in World War II was one of preventing military and industrial espionage in the normal sense of the term. To be sure, a few German Bundists had to be rounded up and either deported or jailed, and, under the influence of hysteria, the Japanese-American population on the West Coast was interned in concentration camps in the interior. But there was no political movement that could penetrate significant layers of American society as a whole, providing not only an excellent nucleus for a possible Fifth Column, but an inexhaustible reservoir of American agents bound by political loyalty to a hostile foreign imperialism. Such, however, is the case with Stalinism.

It is precisely in its handling of the internal menace posed by the existence of a native Stalinist movement that the anti-bourgeois-democratic development of the American bourgeoisie stands most clearly revealed. One has only to cite the nature and manner by which the "subversive" list has been promulgated and used or the recent secrecy order to see how far along the road to authoritarianism, in this respect, American imperialism has traveled. Of course, the primary motivation is fear. But it is not only fear of Stalinism, but fear of any possible anti-capitalist development. It would have been a relatively simple matter, especially in view of the boasts of the F.B.I. that it has its finger on virtually every Stalinist, to have immobilized every Stalinist organization and leader as actual or potential agents of an enemy imperialism. Yet, this was not done. Instead, decree power was used to blanket the most militant anti-Stalinist organizations together with Stalinists as enemies of American imperialism.

American imperialism is first and foremost concerned with preservation of its capitalist and imperialist base. If, in the process, the Bill of Rights, the heart of bourgeois democracy, has to suffer, that is perhaps regrettable, but not as important to the bourgeoisie as maintenance of its property and its system of exploitation. Imagine what the leaders of the American bourgeoisie in its progressive period would say in face of a secrecy order that gives any clerk in any government department the right to classify material as secret or confidential, without any right of appeal, in what is still ostensibly peacetime! We do not say that bourgeois democracy no longer exists in the United States. On the contrary, it does and we shall fight for the preservation of the democratic rights it affords against all its enemies, including the bourgeoisie. But it is important to note the political trends that are unfolding as the Permanent War Economy becomes more and more entrenched. The *trend* is away from bourgeois democracy. All that is needed is the emergence of a real threat of a militant working class movement, on the one hand, and on the other a fascist threat, and then the question of Bonapartism will become an actual one.

WIDESPREAD CORRUPTION IN OFFICIAL and private life has historically been an infallible sign of decadence. The disintegration of the moral fabric of civilization has its roots in a social system that fetters the productive forces and is no longer capable of playing a progressive rôle. Capitalism has never been particularly distinguished for the honor and integrity of its ruling class. One has only to recall the various methods employed by the "robber barons" in the eighteenth and nineteenth centuries during the stage of primitive accumulation of capital to understand why graft and corruption are an integral part of the capitalist method of production. Yet, it is difficult to find a parallel in modern history for the vast corruption disclosed by the Kefauver Committee and various grand juries. The honest public official becomes the rare exception, an occasion for editorial praise.

Bribery takes many forms and is not

restricted to public officials tempted by inadequate incomes. On the contrary, American business has erected bribery into a symbol of aggressiveness and an accepted, if not quite legitimate, method of doing business. "Anyone and anything can be bought for a price" is the underlying philosophy. This prevails from a Jay Gould who boasted that he could hire one-half of the working class to shoot the other half to the modern buyer or purchasing executive in a large corporation who expects to be "smeared" if someone wants to sell him something and who expects to "smear" the supplier of something that is difficult to buy if he wants to buy it. It is therefore hardly surprising that virtually every political machine, Democratic or Republican, in any city of size is clearly linked with organized crime.

Every now and then a reform movement temporarily ousts the corrupt machine and, on occasion, a juicy scandal, such as the Teapot Dome affair, is revealed at the level of the Federal government. The present degree of corruption, however, is far more extensive and all-pervading than ever before, and necessarily so because of the development of state monopoly capitalism. This is the era of the "mink coat," the "deep freeze" and other "gifts" that are generally accepted as the normal method of doing business in Washington. "After all," says the typical bourgeois, "it is *our* government; it is there to be cheated and who cares if we cheat ourselves." An exaggeration? We do not believe so. The American mores tend to condone successful bribery and corruption. It is only those who get caught who are looked upon with a degree of scorn.

With such a background, it is no wonder that as the state intervened more and more actively in all phases of the economy, bribery and corruption have mushroomed to the point where they have become a central political issue. If a businessman cannot do business without a piece of government paper, a priority for raw materials, an allocation, an export license, (a gas coupon), *etc.*, his instinctive thought is to "buy" one. The larger the business, the more prone he is to think of this approach and the greater the possibility of his having the means to carry it out successfully. After all, if congressmen can be "bought," in the interests of favorable legislation, why not "purchase" a piece of paper that is essential for doing business?

Official recognition of the importance of corruption was given by Truman in his special message to Congress of September 27, 1951, calling for disclosure of incomes of United States officers and employees. While the immediate motive was undoubtedly political, to protect the Democrats from the epidemic of public charges of corruption, the message confirms our analysis and reveals another important trend to which state monopoly capitalism under the Permanent War Economy has given rise. States the President: *"As the burdens of the government increase during this defense period, and more and more citizens enter into business or financial dealings with the government, it is particularly necessary to tighten up on our regulatory procedures, and to be sure that uniformly high legal and moral standards apply to all phases of the relationship between the citizen and his government."* (sic!)

Why is this necessary? Perhaps, because officials in the R.F.C. and other agencies, including the Bureau of Internal Revenue, not to mention the war procurement agencies, are lining their pockets at the expense of the taxpayer and then obtaining highly remunerative positions with the same companies they have helped to circumvent Federal regulations? Hardly this, although the President is "disturbed" because "I am told that people all around the country are getting a mistaken and distorted impression that the government is full of evildoers, full of men and women with low standards of morality, full of people who are lining their own pockets and disregarding the public interest."

On the one hand, it is apparently a deliberate plot to discredit the government service: "Attempts have been made through implication and innuendo, and by exaggeration and distortion of the facts in a few cases, to create the impression that graft and corruption are running rampant through the whole government."

On the other hand, there *is* pressure, and there *are* those who succumb: "In operations as large as those of our government today, with so much depending on official action in the Congress and in the executive agencies, there are bound to be attempts by private citizens or special interest groups to gain their ends by illegal or improper means.

"Unfortunately, there are sometimes cases where members of the executive and legislative branches yield to the temptation to let their public acts be swayed by private interest. We must therefore be constantly on the alert to prevent illegal or improper conduct, and to discover and punish any instances of it that may occur."

Truman therefore proposes that all elected and appointed officials receiving salaries of $10,000 or more, plus flag and general officers of the armed services, together with the principal officials and employees of the major political parties, as well as those government employees receiving more than $1,000 annually from outside sources, should be required by law to disclose their entire incomes from all sources, public and private. "The disclosure of current outside income," states Truman, "will strike at the danger of gifts or other inducements made for the purpose of influencing official action, and at the danger of outside interests affecting public decisions." Such information would also "be of obvious help in tracking down any case of wrongdoing."

We doubt that such a law would be particularly effective in eliminating the prevailing widespread corruption, for its roots are much deeper than the president indicates. The "black market" mentality will simply discover new techniques to achieve its objectives. Nevertheless, in spite of the fact that there is little possibility of such a law being passed, we heartily support Truman's proposal. As he says, "people who accept the privilege of holding office in the government must of necessity expect that their entire conduct should be open to inspection by the people they are serving." We think that the people would like to obtain a few facts and figures on the extent of corruption that exists, and that they are entitled to such information.

It is undoubtedly sheer coincidence that on the very same day that Truman proposed his anti-corruption legislation, Senator Williams of Delaware, a kept lackey of the DuPonts, succeeded in having the Senate vote to eliminate tax-exempt expense allowances of the president, vice-president and members of Congress, and is quoted in the press as being motivated by the thought that: *"Our country was founded upon the principle that the ruling class would be subject to the same laws as other citizens."*

This is a very touching thought, and we are happy to learn that there is a ruling class in these United States. As to how equitable the tax laws are, we must leave this very important subject to the next and concluding article in this series, when we shall also indicate our concept of a socialist political program to cope with the problems confronting the working class as a result of the development of the Permanent War Economy.

6. Taxation & the Class Struggle

Preliminary figures for 1951 indicate that 25 per cent of current production went to government in the form of taxes, as measured by the ratio of total government receipts (Federal plus state and local) minus total government receipts of social insurance contributions to net national product. This represents an all-time high, exceeding the peak World War II year of 1943 when the ratio was 24.5 per cent. The relationship of government income to current production and surplus value was shown in Table I of Part III (see May-June, 1951 issue of THE NEW INTERNATIONAL). For the estimated ratio of 22 per cent for 1950 presented there, we can now substitute the actual ratio of 24 per cent.

As was stated in Part III, "The increase in state functions, accompanied by a loss in the effectiveness of the capitalist market, has meant a colossal expansion in government expenditures, which, in turn, has necessitated a phenomenal increase in taxes." With the state (all branches) consuming one-fourth of current output and two-fifths of surplus value, it is no wonder that all segments of the American population have become tax conscious.

Taxes, their amount, character and incidence, are a reflection of the class struggle. This is necessarily so in any class society. It is particularly true under American capitalism where practical politics is keenly alert to group and class pressures, both crude and subtle. In the epoch of the Permanent War Economy, when the ratio of total taxes to current production has increased from 16 per cent in 1939 to an estimated 25 per cent in 1951—*a rise in impact on all classes of better than 50 per cent*—taxation becomes a central political and economic question of the highest magnitude.

Who pays the taxes becomes another way of asking who pays for war and war preparations and who bears the major burden of inflation? While the state is periodically forced to resort to borrowing, as shown in the previous article, in the long run the power of the state and the state bureaucracy is dependent on the portion of output that can be siphoned off in the form of taxes of various kinds.

It was not until 1941 that Federal tax receipts exceeded those of state and local governments. And it was only beginning in 1943 that the Federal personal income tax reached magnitudes sizable enough to penetrate the consciousness of the average individual. With the passage of the Revenue Act of 1951, we have now reached a situation where every class resents its tax burden. The bourgeoisie complain that "taxes have destroyed individual initiative and are impairing the accumulation of capital." The workers gripe and grumble that "they cannot make ends meet and that their take-home pay is inadequate to cope with the rising cost of living." In between, the various layers of the middle classes and farming classes bewail "the pressure exerted on entrepreneurial income and professional salaries by rising costs of production, especially taxes."

TOTAL TAX RECEIPTS have increased almost sixfold since 1939. With the major components of taxes accounting for 85-90 per cent of total tax receipts, the basic changes in the tax picture are shown in Table I.

The data are from the *1951 National Income Supplement to the Survey of Current Business* of the Department of Commerce. Aside from the major tax components shown, other sources of Federal tax revenue are estate and gift taxes, which rose from $61 million in 1929 to $371 million in 1939 and to a peak of $900 million in 1948, declining to $658 million in 1950; and customs duties, which have not changed materially over the years, yielding $599 million in 1929, $344 million in 1939, and $550 million in 1950. Other sources of state and local government tax revenue are corporate profits tax accruals, which were $145 million in 1929, $156 million in 1939, and rose to a peak of $895 million in 1950; and motor vehicle licenses other than those classified as personal taxes, which were $153 million in 1929, $182 million in 1939, and rose to a peak of $469 million in 1950. In addition, both Federal and state and local governments receive a variety of miscellaneous taxes and fees. Other than Federal grants-in-aid to state and local governments, these miscellaneous revenues do not have a significant effect on the tax structure so far as quantitative impact is concerned.

It will be seen that in 1929 Federal tax revenues were less than one-half the amount collected by state and local governments, with property taxes of $4.5 billion amounting to almost one-half of the total tax yield. In spite of the Great Depression and increasing state intervention under the New Deal, the tax picture remained fundamentally the same in 1939, the only significant change being the more than threefold increase in excise and sales taxes. With the advent of the Permanent War Economy, there occurred a sharp rise in virtually all existing forms of taxation, the most noteworthy increases being in the Federal personal income tax, corporation income and excess profits taxes, and excise and sales taxes. Despite the fact that property taxes rose from $4.3 billion in 1939 to $7.3 billion in 1950, their share of revenue raised by major tax sources declined from 40 per cent to 12 per cent.

Federal personal income taxes yielded less than $1 billion in 1939, but on a gross basis (prior to refunds) produced $15.9 billion in 1943 due to the drastic lowering of exemptions and the sharp rise in rates. Prior to 1943 the average worker was virtually unaffected by personal income taxes. After 1943, taxes become an important element in the cost of living, giving rise to the eminently reasonable demand by the trade unions that personal income taxes should be included in the BLS "cost-of-living" index. Naturally, the income tax yield fluctuates not only with respect to the effective tax rate, but also in relation to the size of the national income. From 1945 to 1950, the gross yield of the Federal personal income tax varied between a high of $20.4 billion in 1947 and a low of $17.7 billion in 1949. But dur-

TABLE I
MAJOR TAX COMPONENTS, 1929 and 1939-1950
(Billions of Dollars)

Year	Federal Personal Income Taxes	Federal Corporate Profits Tax Accruals	Federal Excise Taxes	State & Local Personal Tax And Nontax Receipts	State & Local Sales Taxes	Property Taxes*	Total Major Tax Components
1929	$1.2	$1.3	$ .6	$1.4	$ .4	$4.5	$9.4
* * *	* * *	* * *	* * *	* * *			
1939	.9	1.3	1.8	1.2	1.6	4.3	11.0
1940	1.0	2.7	2.1	1.2	1.7	4.4	13.1
1941	1.6	7.6	2.8	1.3	1.9	4.4	19.6
1942	4.1	11.3	3.4	1.3	1.9	4.4	26.4
1943	15.9	13.9	4.1	1.3	1.8	4.5	41.5
1944	17.1	13.1	5.3	1.4	1.9	4.6	43.4
1945	19.8	10.8	6.2	1.5	2.1	4.6	45.0
1946	18.0	9.1	7.3	1.6	2.7	4.8	43.5
1947	20.4	11.3	7.3	1.9	3.2	5.3	49.4
1948	19.8	12.4	7.5	2.1	3.7	5.9	51.4
1949	17.7	10.4	7.6	2.5	3.9	6.6	48.7
1950	18.8	17.7	8.3	2.7	4.3	7.3	59.1

* Excludes personal property taxes.

ing the same period, personal income rose from $172 billion to almost $225 billion—an increase of more than 30 per cent. The proportion of total tax receipts accounted for by the personal income tax—the one relatively progressive feature in the American tax structure—therefore declined steadily as both real output and total tax receipts increased.

Consequently, even though the Federal personal income tax yield is estimated to rise sharply in 1951 to about $25 billion, the progressive aspects of the American tax structure are still sharply outweighed by its regressive features. This conclusion is without reference to the specific nature of the income tax itself. It is based on the fact that corporation taxes, excise and sales taxes, and business property taxes are shifted entirely or almost entirely to the average consumer. Since these taxes account for the bulk of the total tax revenue, the concept that those who can afford to should pay the major part of the tax load is conspicuously absent in the American tax picture—despite the personal income tax.

THE ILLUSION THAT the bourgeoisie bears the real brunt of taxes is one of the biggest swindles ever perpetrated by capitalist propaganda. Capitalist apologists like to refer to the sharply rising rates on large individual incomes, which for the calendar year 1951 reach a maximum of 87.2 per cent of net income *(possibly* affecting those with individual incomes in excess of one million dollars), but the incidence of taxation can only be seen when the entire tax burden by classes of income is analyzed. It is just as impermissible to confine one's judgments on the American tax structure solely to the personal income tax as it is to draw conclusions on the average worker's standard of living without reference to salary deductions, rising prices or the increase in total output.

All taxes and their impact must be considered, as well as the differences in income levels and proportionate shares in total output. Rather than go back to our own estimates, presented in Part II on "Declining Standards of Living," we prefer to rely on official sources wherever possible.

First, it is necessary to establish that there has been no fundamental change in the distribution of personal income by income levels, despite the vast growth in total output and personal incomes. This can be done by a percentage analysis of money income going to each fifth of the population, as shown in Table II.

While much has been made of the slight improvement in the position of the middle income groups at the expense of the highest fifth, the changes are all well within the margin of error inherent in all such data. Moreover, there have been certain conceptual changes in this type of analysis over the years. In addition, comparisons between a depression year and a war economy year are apt to be misleading. Fundamentally, there has been no change. If the rich haven't gotten richer as the poor have become poorer, the relative disparities in income levels have not changed. The rich remain rich while the poor remain poor—despite the tremendous increase in output, both in real and monetary terms. The richest twenty per cent of the population receives almost half the income, in 1948 averaging $9,911, while the poorest 20 per cent receives 3-4 per cent of the income, in 1948 averaging $893.

The distribution of personal income by income levels is before taxes and provides a necessary background for consideration of the impact of *all taxes*. If the tax burden falls chiefly on the upper fifth, then it would be possible to speak of a relatively progressive tax structure. This is especially so since those in the lower 60 per cent received a maximum income of less than $4,000 in 1948—the minimum required to maintain any type of "decent" standard of living by any set of criteria. Or, if the upper income groups are bearing a noticeably heavier proportion of the total tax burden as total tax receipts increase, there would at least be evidence that the tax structure is becoming less regressive.

The facts are, however, that the American tax structure was and remains regressive to an amazing degree. The wealthy pay only a slightly higher percentage of their income in taxes than do other groups, and the poorest pay a higher percentage of their income in taxes than the middle income groups. The reason, as has already been mentioned, is that the Federal personal income tax is overshadowed by other taxes whose burden is an inverse proportion to income. That this is indeed the situation and that it has not changed fundamentally under the Permanent War Economy, despite the enormous increase in taxes, can be seen from Tables III and IV.

Thus, just prior to the advent of the Permanent War Economy, taxes took about one-fifth of total personal income, with state and local government taxes accounting for more than one-half of the total tax yield. The completely regressive nature of state and local taxes, together with the semi-regressive nature of Federal taxes, produced a situation where the lowest income groups paid a higher proportion of their income in taxes than did all income groups under $10,000. It is only when the top income class of $20,000 and over (consisting of .5 per cent of spending units who received 9.1 per cent of total personal income) is considered that a feeble approach to a progressive tax system is apparent. And, obviously, a member of the bourgeoisie who in 1938-39 received $20,000 cheerfully paid about one-third of his income in taxes, while the average worker who received less than $1,500 could ill afford to pay about one-fifth of his income in taxes.

With personal income having tripled by 1948, the opportunity to recast the American tax structure in a progressive direction, despite the fivefold increase in total tax receipts, was present. Obviously, this could have been done without impoverishing the bourgeoisie who, as demonstrated in Part III, had accumulated sufficient surplus values to permit considerable easing of the tax burden of the lower income groups. Equally obviously, as can be seen from Table IV, this was not done.

Thus, after a decade of the Permanent War Economy, taxes took about one-fourth of total personal income, with Federal taxes now accounting for more than three-fourths of the total tax yield. Nevertheless, the completely

TABLE II

MONEY INCOME RECEIVED BY EACH FIFTH OF FAMILIES AND SINGLE PERSONS, 1935-36, 1941, 1948, AND 1949

(Percentage of Money Income)

Families and Single Persons Ranked from Lowest to Highest Income	1935-36*	1941*	1948*	1949†
Lowest fifth	4.0%	3.5%	4.2%	3%
Second fifth	8.7	9.1	10.5	9
Third fifth	13.6	15.3	16.1	17
Fourth fifth	20.5	22.5	22.3	24
Highest fifth	53.2	49.6	46.9	47

*Taken from Table 4 of TAXES AND THE HUMAN FACTOR by Theodore J. Kreps, The Public Affairs Institute, 1951, sources: National Resources Planning Board (1935-36), Department of Labor (1941), and *1950 Survey of Consumer Finances* of Federal Reserve Board (1948).

†From the 1950 Census as reported by the Census Bureau in *The New York Times* of December 2, 1951.

regressive nature of state and local taxes still combines with such regressive features of Federal taxes as excise taxes and corporation taxes to produce a situation where the lowest income group still pays a higher percentage of its income in taxes than all except the 5.3 per cent of the spending units in the $7,500 and over category. If there were a finer income breakdown in the higher income groups, the beginnings of a progressive tax structure would pecome apparent at a somewhat lower figure than in 1938-39, but there has been no fundamental change in the incidence of taxation nor in the character of the American tax structure.

The worker who received $1,000 in 1938-39 and paid approximately 18 per cent in total taxes may have had his income increased to $2,500 in 1948, with his tax payments rising to 21 per cent. His contribution to total government tax receipts would then have gone up from $180 to $525, leaving his net income after taxes at $1,957 against $820—an increase in effective money income of 141 per cent. Meanwhile, the bourgeois whose income in 1938-39 was $10,000, on which he likewise paid 18 per cent in total taxes, may have had his income increased to $30,000 in 1948, with his tax payments rising to 40 per cent. The bourgeois' contribution to total government tax receipts would then have increased from $1,800 to $12,000, leaving his net income after taxes at $18,000 against $8,200—an increase in effective money income of only 120 per cent. On the surface, therefore, the worker is better off and capitalist inequality has tended to be reduced as a result of rising taxes.

Such growing "equality" the bourgeoisie can well afford, for if our hypothetical worker and bourgeois are assumed to represent their respective classes, what has happened is that total effective money income of both classes has risen from $9,020 to $19,975—an increase of $10,955, of which $9,800, or 89.5 per cent, has gone to the bourgeoisie. The bourgeois is now only nine times better off than the worker, whereas previously his effective money income was ten times greater, but again nothing fundamental has changed in the relative positions of the basic classes of modern capitalist society. *The state, however, whose function is more and more to protect the rule and the wealth of the bourgeoisie, is being financed in steadily increasing measure by the workers and lower middle classes.* Therein lies the secret of the rôle of taxation under the Permanent War Economy, while equality of incomes remains just as much a mirage on the horizon as it ever was.

TABLE III

TOTAL TAXES IN 1938-39 AS PERCENTAGE OF PERSONAL INCOME, BY INCOME CLASSES*

	TAXES AS PERCENTAGE OF INCOME		
	Federal	*State & Local*	*Total*
Under $500	7.9%	14.0%	21.9%
$500 to $1,000	6.6	11.4	18.0
$1,000 to $1,500	6.4	10.9	17.3
$1,500 to $2,000	6.6	11.2	17.8
$2,000 to $3,000	6.4	11.1	17.5
$3,000 to $5,000	7.0	10.6	17.6
$5,000 to $10,000	8.4	9.5	17.9
$10,000 to $15,000	14.9	10.6	25.5
$15,000 to $20,000	19.8	11.9	31.7
$20,000 and over	27.2	10.6	37.8
TOTAL	9.2	11.0	20.2

*Taken from Table I of T.N.E.C. Monograph No. 3, *Who Pays the Taxes?*

TABLE IV

1948 TAX PAYMENTS AS PER CENT OF INCOME BY INCOME BRACKETS*

	TAXES AS PERCENTAGE OF INCOME		
Spending Unit Income Bracket	*Federal*	*State & Local*	*Total*
Under $1,000	13.9%	9.7%	23.6%
$1,000—$1,999	13.5	6.8	20.3
$2,000—$2,999	15.5	6.1	21.6
$3,000—$3,999	15.8	6.0	21.8
$4,000—$4,999	16.1	5.6	21.7
$5,000—$7,499	17.7	5.4	23.1
$7,500 and over	26.3	5.5	31.7
TOTAL	18.8	5.8	24.7

*Taken from Table 5 of Kreps, *op. cit.*, which, in turn, is based on "The Distribution of Tax Payments by Income Groups in 1948," by R. A. Musgrave, J. J. Carroll, L. D. Cook, and L. Franc, published in *The National Tax Journal*, March 1951.

The data in Table IV can be used to derive the relative class burdens of taxation, if certain arbitrary assumptions be made to relate income brackets to classes. The results are necessarily rough, but demonstrate conclusively that the bourgeoisie by no means bear the major share of financing their state. If we assume that those in the $7,500 and over group, comprising 5.3 per cent of the number of spending units, represent the bourgeoisie and their main supporters among the upper middle classes, we can calculate their class tax burden, since Kreps notes that the effective tax rates are computed on an estimated personal income in 1948 of $211.9 billion, which is close enough to the reported figure of $209.5 billion. With this upper income group receiving 28.8 per cent of personal income, it is apparent that they received $61 billion, on which they paid an over-all tax rate of 31.7 per cent, or a total tax bill of $19.3 billion. This is equivalent to slightly more than one-third of total tax payments. In other words, the working classes and lower middle classes contribute almost two-thirds of total tax payments.

THE KREPS PAMPHLET, previously cited, constitutes one of the most effective indictments yet published on the inequities of the present American tax structure. In addition, it effectively refutes the arguments advanced by the apologists of the bourgeoisie that the masses must necessarily bear the major burden of tax increases. Kreps states and proves that "the principal beneficiaries of inflation were (in terms of actual dollars and cents) not the lower-income-bracket wage-and-pension-receiving masses but the upper-bracket-income entrepreneurs and owners of properties and equities." Readers of earlier articles in this series are thoroughly familiar with the facts of income distribution, which thoroughly debunk the carefully cultivated notion that the working masses have been the beneficiary of inflation.

Another assiduously propagandized falsehood is that the low-income masses are under-taxed and should therefore bear the major burden of new taxes. The factual refutation of this argument has already been presented, but there is another side to this coin which is most interesting. Not only do the upper income groups pay a smaller proportion of taxes than they claim or than they should by any standard of justice or equity, but they pay much less than they legally and morally should. The tax laws are drafted and administered by the representatives of capital in the interests of the ruling class. As Kreps puts it, ". . . opportunities for tax avoidance and tax evasion are much larger in the high-income brackets than in those below $3,000."

The gap between Treasury reports of adjusted gross personal income, based on income tax returns, and Commerce estimates of personal income is extremely large. In 1948, for example, the Commerce figure was $45 billion higher than the Treasury total. Today, it must run well over $60 billion. Only a portion of this income that somehow miraculously evaporated when income tax returns were filled out can be attributed to non-monetary aspects of personal income included by Commerce, or to legal tax avoidance by low-income groups such as the exemption of military pay below $1,500 and the right to postpone reporting of accrued interest on E-bonds.

"Tax avoidance, completely legal but nonetheless real," states Kreps, "favors those in the upper income groups; for example, those who own their own homes. In the $7,500 and over bracket two out of three own their own homes whereas in the brackets between $1,000 and $3,000 the figure is about half that percentage. Now homeowners are not required to report the constructive income which they receive from their investment in their home (which may keep them out of a higher tax bracket). In addition, they can actually deduct local taxes on their home, and interest on the mortgage if there be one, which deduction cuts down their Federal income taxes at the highest marginal rate applicable to their income. Renters (of whom there are proportionately more than twice as many in the lower income brackets) simply pay out rent each month from an income total on which they pay taxes in full.

"Moreover, the splitting of incomes of married persons, which means nothing on lower bracket incomes (below $4,000), involves progressively more and more dollars of tax savings to each couple in the upper brackets, another reason why the per cent of income taken by taxes in the upper income brackets is not as high as one might expect.

"Those receiving entrepreneurial incomes are given several additional loopholes. . . . Those owning oil properties can take 27.5 per cent depletion allowances year after year. Capital gains are taxed only 25 per cent [now 26 per cent—T. N. V.] after but a six months' waiting period. Businessmen can split the income from their business several ways simply by making their wives, infant children and relatives 'partners'—though they may be called upon to prove that they did not do so simply for tax avoidance purposes. Executives can receive compensation in the form of stock options subject only to the rate on capital gains rather than the full income tax rates. And so on."

In other words, there are very few opportunities for legal tax avoidance in the lower income brackets. The worker's tax is withheld at the source and unless he has incurred unusually heavy medical expenses or some similar permitted deduction he pays 100 per cent of his income tax obligation. The worker cannot carry back or forward his "losses" that may have arisen due to unemployment, but the owner of capital can. The worker cannot deduct "business expenses" which the average businessman does to the full limit of what he can get away with. In fact, deduction of business expenses for entertainment, travel, *etc.*, has reached such scandalous proportions that virtually every businessman has established charge accounts with restaurants, night clubs, *etc.*, to "prove" that he spent the sums deducted as business expenses. That he also feeds and entertains himself while actually or theoretically promoting business is apparently outside the administration of the tax law. There can be little doubt that the amount of tax avoidance that occurs through the one device of "business expenses" amounts to billions of dollars.

The upper income individual can pose as a public-spirited person, and incidentally on occasion promote his own business interests, by making his 15 per cent contribution to charity. The lower income person simply does not have the means, nor does he as a rule possess the economic, social or political motives for such contributions. Related to this eminently respectable tax-dodging device is the legal evasion granted to the creators of trust funds, which not only avoids current income taxes but permits fortunes to be passed on to heirs with a notoriously minimum amount paid in estate taxes. The adroit use of gifts and gift taxes, it should be noted, is an integral part of this type of tax avoidance. The low amount of gift and estate taxes, observed earlier, and their decline since 1948 would undoubtedly prove to be a more profitable source of Congressional inquiry, in terms of added income to the government, than even the corruption in the Bureau of Internal Revenue.

There are many other legal loopholes. The excess profits tax, in particular, is so full of loopholes that it is practically a joke. So overt is the loophole situation that when President Truman signed the Revenue Act of 1951 on October 20th, he was constrained to say: "Furthermore, this legislation does little to close the loopholes in present tax laws, and in some respects provides additional means by which wealthy individuals can escape paying their proper share of the national tax load through such devices as excessively liberal 'capital gains' provisions, family partnerships and excessive depletion allowances on oil and gas and certain mineral properties."

It should be obvious that the function of legal loopholes is not primarily to provide additional business for accountants and tax lawyers. Legal avoidance of taxes is part of the system by which the ruling class perpetuates its wealth and power. The tax laws are admittedly rigged in the interests of business. Elimination merely of obvious legal loopholes would by itself raise sufficient revenue to have made unnecessary the increases in the income tax under the Revenue Acts of 1950 and 1951. It must be emphasized that legal tax avoidance amounts to billions upon billions of dollars and that the bourgeoisie is virtually the sole beneficiary of such largesse. Not the lower income groups but the upper income groups are under-taxed!

In addition to tax avoidance, there is tax evasion, which is presumably illegal. States Kreps: "Opportunities for tax evasion are similarly much more abundant in the upper income brackets than in the lower. Evasion is next to impossible where employers or fiduciaries make reports and act as collecting agencies in withholding taxes at the source, *i.e.*, for wage earners, pensioners, public employees, *etc.* These have no chance to under-report their income [but the *New York World-Telegram and Sun* of December 10, 1951, reports that the government had warrants out on October 31st for more than $96 million owed by employers as tax delinquency on workers' payroll deductions—T. N. V.]. But note (in Table V) the types of income on which under-reporting occurred in 1946."

If the data in Table V are indicative of what normally transpires, 14 per cent of income tax net income is evaded by failure to report the legally correct amount. Which income levels are guilty of such evasions? Obviously, the upper income groups, for only 71 per cent of entrepreneurial income, 37 per cent of interest payments, 76 per cent of actual dividends paid, and 45 per cent of rents received, appeared on income tax returns. Income from these sources goes overwhelmingly to the upper income groups. Even in the case of wages and salaries, where there is a five per cent under-reporting, amounting in 1946 to $5 billion, or 25 per cent, of the total of $20 billion unreported, much, if not most, of the under-reporting would undoubtedly be traceable to the upper income groups.

At present income levels, assuming that the same degree of under-reporting holds true, the difference between "actual" and "reported" money income would exceed $30 billion rather than the $20 billion shown for 1946. On the basis of 1951 income tax rates, especially in view of the fact that tax evasion is concentrated in the upper income groups, elimination of tax evasion due to under-reporting of incomes would add well over $5 billion in tax revenue to the Federal government. This is without reference to cases of fraud where there is a deliberate failure to report income that arose illegally and was not entered on books of account but usually remitted in cash transactions. Nor has any attempt been made to assess the amount of income tax evasion due to the keeping of deliberately fictitious books. Likewise, the data on under-reporting of incomes have nothing to do with the amount outstanding in delinquent taxes, which the Bureau of Internal Revenue admits totals over $632 million (*New York Times*, December 11, 1951).

Whether income tax evasion due to bribery of tax officials would add significantly to the amount of revenue the government should be collecting, we do not know. Perhaps the present Congressional investigation will throw some quantitative light on the picture. One thing is certain, however, and that is that it is not the low-income groups that bribe and corrupt government officials. The best proof that under-reporting and evasion of taxes among the upper income group are costing the government billions of dollars annually in lost tax revenues is to be found in the reported decision of Secretary of the Treasury Snyder to require the individual auditing of each taxpayer's return in the $25,000 and over bracket rather than the sampling technique used for the mass of income tax returns.

TABLE V
TAX EVASION IN 1946*
(Millions of Dollars)

Source of Income	Personal Income (Derived from Commerce)	Adjusted so as to be Comparable with Totals Reported on Income Tax Returns	Amount Reported on Income Tax Returns	Ratio of Reported Income to Actual
Civilian wages and salaries	$101,549	$102,546	$97,409	.95
Nonfarm entrepreneurial income	21,813	20,816	23,146	.71
Farm entrepreneurial income	10,840	11,929		
Military income	11,556	....	....	....
Interest	9,317	2,989	1,105	.37
Dividends		4,933	3,730	.76
Fiduciary income (of individuals)		1,120	1,108	.99
Rent	5,460	4,013	1,799	.45
Social Security, etc.	3,506	....	....	....
Other income	868	....	....	....
TOTAL	$164,909	$148,346	$128,287	.86

*Taken from Kreps, *op. cit.*, source: National Bureau of Economic Research, *Studies in Income and Wealth*, Vol. XIII, to be published.

Deception in tax matters now extends to the government's official press releases. All official Washington releases on the Revenue Act of 1951 stated, in effect, that: "The bill increases the tax on most individual incomes by 11.75 per cent." Whereupon, the average citizen concluded that, if his income remained the same, he would pay only 11.75 per cent more in Federal income tax in 1951 than he did in 1950. He was also led to believe that his 1952 tax would, barring a further increase in tax rates, be about the same as in 1951. This particular fraud was exposed in an article in the *New York World-Telegram and Sun* of November 20, 1951, based on an analysis supplied by Fred S. Peabody, for 20 years a special agent in the Income Tax Bureau and now an accountant and tax expert. A selection of cases to portray the actual impact of the Revenue Act of 1951 on individual income taxes is shown in Table VI.

"You'll notice," states the article, "that some really do pay only about 11 per cent. The fellow who has to struggle with a net $50,000 income gets off with that.

"'But simple arithmetic,' said Mr. Peabody, 'shows that for 1951 the increase over 1950 is much greater than the 11.75 per cent announced in Washington. Most persons will pay between 16.75 and 18 per cent.'

"What Mr. Peabody emphasizes is that the percentage increase cited on passage of the new tax bill last October was 'apparently based on the increase in tax to be withheld from wages beginning Nov. 1, instead of on the increase in tax you will pay for the full 1951 year.'

"The gimmick was the sizable credit which everybody was allowed on the tax paid last spring on part of his 1950 income. . . .

"'The Revenue Act of 1951,' Mr. Peabody explained, 'eliminated the 13 per cent credit allowed on the first $400 of tax granted under the 1950 law. So it is obvious that the percentage increase over the 1950 rate is at least 13 per cent of the first $400 of tax.

"'It is believed that the loss of this 13 per cent cut affects a large majority of taxpayers. The rest lost a reduction of 9 per cent under last year's law.

"'As the increased rates . . . did not become effective until Nov. 1 their full effect won't be felt until next year. Then most persons will pay between 27.25 and 28.25 per cent more than they would have paid on the same income at 1950 rates.'"

Thus, the real impact of the new tax increase is on the workers and lower middle classes and won't be felt until March 15. At that time, those who have regularly been receiving sizable refunds because too much has been withheld will find that they get little or no refund, while others will find that they have to pay substantial additional sums to the government. The impact on March 15, 1953 on 1952 incomes will be even greater, as indicated, without any further increase in the income tax.

There is no need to cite the increases in excise taxes on liquor, cigarettes, gasoline, *etc.*, or other regressive features of the Revenue Act of 1951. The facts are there for all who

TABLE VI
IMPACT OF REVENUE ACT OF 1951
ON SELECTED INDIVIDUAL INCOME TAXES

Net Income	Number of Exemptions	1950 Rates	1951 Rates	1951 Increase over 1950 Tax: Amount	1951 Increase over 1950 Tax: Per Cent	1952 Rates	1952 Increase over 1950 Tax: Amount	1952 Increase over 1950 Tax: Per Cent
$900	1	$ 38	$ 45	$ 7	18.42%	$ 49	$ 11	28.94%
$2,000	2	106	125	19	18.00	136	30	28.30
$3,000	3	161	188	27	16.77	205	44	27.32
$4,000	4	213	249	36	16.90	271	58	27.22
$4,950	5	257	301	44	17.11	328	71	27.62
$10,000	2	1,456	1,667	210	14.42	1,822	366	25.13
$50,000	1	23,997	26,753	2,761	11.51	28,466	4,469	18.63

wish to take an unbiased look at them. It is frequently argued, however, that regardless of justice, *etc.*, it is necessary to increase taxes more heavily on the lower income groups because that is the only way to reduce consumption of consumer commodities that are draining materials away from war output, and that inflation cannot be prevented without mopping up the "excess income" of the low-income masses. Both arguments are basically false, as Kreps demonstrates.

"THE THIRD FALLACY requiring exposure to facts," observes Kreps, "is the notion that 60 per cent of the people must do 60 per cent of the consumption." As exposure of this tendentious argument in favor of increasing taxes on the lower income groups, in order to restrict consumption and thereby save critically needed materials, he offers the evidence contained in Table VII, submitted by Professor Musgrave in testimony before the Joint Committee on the Economic Report.

TABLE VII

ESTIMATED DISTRIBUTION OF CONSUMER EXPENDITURES FOR 1948*
(In Per Cent of Total)

Spending Unit Income Brackets	*Total Retail Sales*	*Retail Food Sales†*	*Retail Sales Less Food†*	*Liquor Sales*	*Tobacco Sales†*	*Durable Sales*
Under $1,000	3.9%	4.1%	3.9%	.9%	3.9%	2.2%
$1,000—$1,999	9.3	11.4	8.2	8.9	11.4	5.6
$2,000—$2,999	18.1	20.5	16.7	17.2	21.1	18.2
$3,000—$3,999	20.7	21.8	20.1	22.5	22.9	20.0
$4,000—$4,999	14.4	14.2	14.5	12.7	14.3	15.8
$5,000—$7,499	16.1	14.6	16.9	16.4	14.1	17.0
$7,500 and over	17.5	13.3	19.8	21.4	12.2	21.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

*Taken from Kreps, *op. cit.*, source: Hearings, Joint Committee on the Economic Report, on January, 1951, Economic Report of the President.

†Totals do not add to 100 per cent due to rounding.

Comments Kreps: "Those getting less than $3,000 (representing 54 per cent of the spending units) buy only 26 per cent of the durable goods, only 27 per cent of the liquor, 28.8 per cent of all goods at retail excepting food, and make only 31.3 per cent of all consumer expenditures.

"On the other hand, those getting over $4,000, comprising only 27 per cent of the spending units, buy 54 per cent of all durable goods, 50.5 per cent of the liquor, 51.2 per cent of all goods sold at retail excluding food, and account for 48 per cent of all consumer expenditures. *It is the spending of those getting over $4,000 that must be curbed if a major frontal attack is to be made on the problems of restricting consumption.*" (Italics mine—T. N. V.)

The apologists for the bourgeoisie also like to argue that it is the low-income masses who are responsible for the inflationary pressure generated by excess demand. The masses, they claim, hold the bulk of savings. This "hot" money, they assert, will be used to push up prices unless the tax collector relieves the mass of the population of "huge" savings. Nothing could be further from the truth. The overwhelming portion of personal savings has always been concentrated in the hands of the upper five or ten per cent of the population.

Writes Kreps: "Actually, the amount of United States Government bonds and savings and checking accounts held by the majority, that is, the 26,000,000 consumer units getting less than $2,700, is only 27.1 per cent of the total. In so far as there is a 'hot money' problem with respect to E-bonds in 1950 or 1951, it is for the most part a middle and upper-income bracket problem. They are the only groups that have any substantial quantities of E-bonds or other liquid assets left. The lower income groups have for the most part sold theirs.

"In 1949 more than half the population failed to save a dime. In fact, on balance, their dissaving has continually increased though, of course, there still remain a minority even in the lowest income brackets that manage to save despite the fact that the majority do not. On the other hand, the savings of the top tenth have increased so much that in 1949 their net savings exceeded the total of all net savings in the country. In other words, on balance, the lowest 90 per cent in the income scale saved nothing."

Moreover, adds Kreps, "since V-J Day, about twelve-and-a-half million spending units have parted with all the savings bonds they owned. . . . *In short, 'hot money' in large amounts is primarily not a mass-income bracket, but an upper-income bracket phenomenon.*"

The workers and lower middle classes, thus, were not responsible for the orgy of consumer buying following the outbreak of the Korean war. On the contrary, it was the bourgeoisie and upper middle classes, the only ones with the income, savings or credit to permit widespread advance buying and hoarding, particularly of durable goods, who built up private inventories in precisely the same manner as businessmen accumulated huge inventories. While inflation is inherent and permanent under the Permanent War Economy, as we have previously demonstrated, the engine of inflation is always and necessarily the accumulation and expenditure of surplus values on the part of the bourgeoisie.

We need not be particularly concerned with Kreps' conclusions, for his position is the traditional one of the liberals and intellectuals. As such, it will receive brief comment below. His case against heavier taxes on mass incomes, however, is most cogently made. It is well to have the data before us when evaluating the position of the various classes with respect to taxation.

". . . any new tax falling on those getting less than $3,000 will cut production much more than it will cut or divert consumption." In support of this contention, which is based on the fact that "tens of millions of families have had their budgets so cruelly cut by inflation that minimum standards of health and productivity are being eroded away," Kreps offers the following income analysis, which we present below as Table VIII.

"To be sure," states Kreps, "economic literature abounds in controversies concerning the 'efficiency level' of consumption or the level of 'minimum needs.' Thus, for example, the minimum health and decency budget currently published by the Bureau of Labor Statistics is one so high that even at current high levels of national income, nearly three-fourths of the population fail to attain it.

"Yet in quantitative terms even that budget hardly seems luxurious or excessive. It provides, for example, that a man can buy a top coat only once in ten years, that his wife can have only one new cotton street dress a year; that her wool dress has to last five years. The family can buy a low-priced car only once every 15 or 16 years. Other durable goods such as cook stoves, refrigerators, washing machines, vacuum cleaners, sewing machines, have to last 17 years or longer. In quantitative terms, such a budget level seems a considerable distance removed from luxury consumption, yet at 1950 prices the income estimated by the Bureau of Labor Statistics as necessary to finance this standard of living is $1,630 for a single person, and $2,330 for a married couple.

"In order to be highly conservative,

the figures in Table VIII have been computed on a basis more than one-third lower than the BLS figures. . . . Even on this basis, as the table clearly indicates, the tens of millions of families and single individuals who receive less than $2,000 a year come short by many billions of dollars in obtaining the income necessary for efficiency consumption and productivity. As a defense measure, incomes not higher than efficiency levels ought to be kept inviolate and not further lowered by general sales taxes or general manufacturers' excise taxes.

"Table VIII likewise indicates where the money in excess of such a minimum may be found. Of the total of roughly $44.5 billion in 1948 that may have been available in excess of minimum need, $17.2 billion, or 40 per cent was in the hands of persons with incomes of $10,000 or over; another 22 per cent in the hands of persons receiving over $6,000 but less than $10,000; more than 23 per cent in the hands of persons receiving over $4,500 but less than $6,000; and less than 8 per cent in the brackets below $3,000."

TABLE VIII

INCOME RECEIVED AND ESTIMATED MINIMUM INCOME REQUIRED FOR FAMILY MAINTENANCE BY INCOME CLASSES—1948*

(Billions of Dollars)

Adjusted Gross Income Classes	*Adjusted Gross Income Received‡*	*Federal Personal Income Tax Liability*	*Income After Federal Income Tax*	*Estimated† Amount Needed for Maintenance*	*Deficiency (—) or Excess of Income Over Estimated "Minimum Need"*
Under $1,000	$4.3	$.1	$4.2	$11.8	—$7.6
$1,000—$1,499	6.5	.2	6.3	9.5	— 3.2
$1,500—$1,999	10.5	.4	10.1	11.5	— 1.4
$2,000—$2,499	14.1	.7	13.4	12.7	.7
$2,500—$2,999	16.9	.9	16.0	13.1	2.9
$3,000—$3,499	17.3	1.0	16.3	11.4	4.9
$3,500—$3,999	15.2	1.0	14.2	8.9	5.3
$4,000—$4,499	13.0	.9	12.1	6.8	5.3
$4,500—$4,999	9.7	.8	8.9	4.6	4.3
$5,000—$5,999	12.6	1.1	11.5	5.3	6.2
$6,000—$9,999	17.2	1.8	15.4	5.6	9.8
$10,000 and over	26.8	6.6	20.2	3.0	17.2
TOTAL	164.2	15.4	148.8	104.3	44.5

*Taken from Kreps, *op cit.*, source: *Joint Economic Report*, Senate Report No. 210, 82nd Congress, 1st session, April 2, 1950, U. S. Government Printing Office.

‡Statistics of Income 1948, Part I (Preliminary).

†Estimated on the basis of number of families by size groups within each income class multiplied by an estimated minimum income figure needed to sustain a family of a specified size—*i.e.*, $1,000 for each individual living alone; $1,500 for two person families; $2,000 for three, $2,500 for four, $3,000 for five, $3,500 for six, and $4,000 for families of seven or more persons.

THAT TAXES HAVE BECOME a major arena of the class struggle can be seen from the sharply divergent position of the various classes with respect to proposals for increased taxation and the bitterness that conflicts over taxation have engendered. With taxes taking a steadily increasing proportion of current output in order to finance the war machine and its inevitable bureaucratic apparatus, it is only natural that this should be the case. The impact of taxation in general has become so great that all classes and all income levels feel "hurt in the pocketbook," which is popularly believed to be the severest hurt of all. At any rate, it is a fact that today no major business transaction is consummated or policy adopted without careful examination of the impact on the tax position of the corporation or stockholder involved.

There has likewise been a noticeable trend toward crystallization of opposing and conflicting class positions with respect to taxation policy. Although an element of fluidity in class positions and attitudes toward various proposals to increase tax revenues still prevails, we can distinguish sharply among the positions of the more class conscious strata, especially the industrial bourgeoisie as represented by the N.A.M., organized labor, particularly its left wing as represented by Reuther, and class-conscious socialists. The most fully developed and highly articulated class position is that of the N.A.M. for a uniform manufacturers' excise tax. The N.A.M. position was adopted in 1949 and is presented in its post-Korean form in a basic study entitled *A Program to Combat Inflation by Paying-As-We-Go*, approved by the N.A.M.'s Board of Directors on February 21, 1951 and published as Economic Policy Division Series No. 38. Its chief features are put forth in a popular catechism of 34 questions and answers on "A Manufacturers' Uniform Excise Versus A Retail Sales Tax," appearing as a special report of *NAM News*, May 5, 1951.

We need not be concerned with the internecine quarrel within the bourgeoisie between the advocates of a Federal retail sales tax and the N.A.M. advocacy of a manufacturers' uniform excise tax. Both are taxes on consumption to be paid by the consumer, *i.e.*, those least able to afford higher taxes. Both are designed to shift the major burden of taxation to the workers and lower middle classes. Advocates of both positions are prepared to accept either method as offering the best prospect of maintaining the wealth and power of the bourgeoisie and still assuring needed support for the capitalist state. Aside from technical differences, the major dispute is one of perspective. Advocates of the retail sales tax, representing less reactionary segments of the bourgeoisie and their supporters, view such measures as "temporary," to be repealed after the "emergency" is over. The N.A.M., on the other hand, states categorically: "For the purposes of the long-range future, *this uniform tax at a moderate rate should be regarded* as the basic federal excise, to be carried through into the period beyond the defense period, or even a third war, *as a permanent feature of federal taxation.*" (Italics in original.)

The N.A.M. is quite open in its objective. Catechism 5 goes: "Q. Why has the NAM recommended a uniform excise tax? A. This recommendation is made for two reasons: 1—TO CORRECT THE DEFECTS OF THE EXISTING FEDERAL EXCISE SYSTEM. . . . A uniform excise tax across the board on all consumer purchases would introduce equality of tax burden in proportion to purchases of consumer goods. It would put all producers on a par in competing for the consumer dollar. . . . 2—TO ESTABLISH A BROAD BASE OF CONSUMPTION TAXATION. *The distribution of a part of the total tax load over income as it is spent will make possible the levy of less heavy taxes on income as it is received.* Thus the attainment of the dual objective of high-level production and consumption would be less hampered than by *extreme concentration of taxes on income as received,* a policy that *would diminish the incentives to work in order to get income.*" (Italics mine—T. N. V.)

If the motivation is not entirely clear, we can cite catechism 13. Because of its touching solicitude for the general welfare, and its conscious and unconscious revelation of NAM philosophy, we reproduce it in full:

"Q. Would a manufacturers' uniform excise be an unfair burden on the low-income groups?

"A. No. The excise or consumption taxes are one of the tax methods which the Government must use in order to keep the defense program on a pay-as-we-go basis. There must be some tax payment toward this cost by all, regardless of the level of their income. *There is not enough income left after present taxes in the middle and higher incomes to pay the bill, even if all of the income after tax were confiscated. The lower incomes must carry a part of the load.*

"Available figures show that if food, rent, and various services are excluded, as they would be under the NAM program, the relative burden of excise taxes would rise *somewhat* as income increases. In other words, the more one has to spend, the more he is likely to spend, and hence the more excise tax he will pay.

"In the financing program which the nation faces there is a choice of evils. If we try to protect too many people against an increase of tax burden, we shall fail to keep on a pay-as-we-go basis. The alternative to this course is inflation, and this would inflict a heavier burden on all consumers than they would have to carry as a tax load. *If we try to balance the budget by increasing income taxes, it will not be possible to shelter the small incomes from this tax.* Excise taxes will be a means of keeping income tax rates lower than they would otherwise have to be, and thus *they become the least of the evils, for the small income groups* and for all taxpayers." (Italics mine—T. N. V.)

It would be difficult to crowd more arrant nonsense and utterly false reasoning in such a short space. The ignorance betrayed on the causes and effects of inflation, not to mention the relationship of taxation to inflation, is equalled by the erroneous statements on the facts of economic life and the evident self-contradictions. In fact, the only correct statement in the entire catechism is that consumer expenditures are related to income. The implication that the lower incomes are relatively untaxed is completely false, as already shown. The statement that even confiscation of income of upper income levels would not raise sufficient revenue to balance the budget is sheer nonsense. As Table VIII demonstrates, in 1948 there was over $20 billion left after Federal income taxes in the $10,000 and over category. In spite of increased taxes (which do not apply to the NAM argument), there is at least that sum available today, and the Federal deficit is never presented at more than half that figure. There are, in fact, many ways of raising the amount stated as necessary to finance the war program without increasing taxes on incomes under $4,000 by one cent.

The NAM position, taken at face value, becomes the ludicrous one of asserting that higher income taxes are equally bad for rich and poor, and that higher excise taxes, whose burden is admittedly heavier on the mass of the population, will favor rich and poor alike. The sleight of hand by which the majority of the population in the low-income groups is supposed to favor a tax program designed to minimize the tax burden of the upper income groups is matched by the effrontery that attempts to pass off sales taxes as progressive because they are proportional.

In passing, it should be noted that the NAM is not opposed to increasing the yield from the income tax if it be done through reducing the present exemption for dependents from $600 to $500. The important question, however, is at what rate would the uniform excise tax have to be placed in order to achieve the NAM's objective of a balanced budget. And how much of an increase would this bring in the average price level?

While the NAM carefully avoids such questions in its popular catechism, it provides its own answer in its programmatic statement: "At current levels of gross national product, a tax base for the uniform manufacturers' excise tax of $90 billion is estimated. With no allowance for the effect of high rates on the volume of consumption buying, a flat rate of 10 per cent would produce $9 billion, and a flat rate of 20 per cent would produce $18 billion, as compared with $4 billion under the present selective system [not true by more than $4 billion as shown in Table I; even if the figure is intended to refer only to excise taxes other than liquor and tobacco, it would be $4.5 billion in 1950 —T. N. V.]. *These rates on the final manufactured price would become equivalent rates of 5-6 per cent, and 10-12 per cent, respectively, in relation to the retail price.*" (Italics mine—T. N. V.)

It is clear that maintenance of the war program at NAM-approved levels, would require a uniform excise tax on manufactured commodities other than food of close to 20 per cent. For the working masses, this would raise the cost of living by about 8 per cent. Why direct inflation is any worse than such a tax-legislated inflation is not at all clear. It is clear, however, why the Administration has *so far* rejected the NAM program as politically unfeasible, and has proceeded to maintain the existing tax structure, by raising income, corporation and excise taxes.

Organized labor's opposition to the tax gouge was indicated in the previous article by quotations from statements issued by the United Labor Policy Committee. Its position on the Revenue Act of 1951 is adequately indicated by a CIO press release of September 20, 1951, in which "The CIO charged that the tax bill under Senate consideration will represent a $1.10 weekly cut in take-home pay for four-member families with incomes of $4,000, and called for a series of six improvements . . .: (1) remove the $1.3 billion excise tax increases; (2) eliminate tax increases on incomes under $4,000; (3) close the split income loophole; (4) eliminate alternate methods of computing income tax that benefit the wealthy; (5) retain House-passed provisions on excess profits and corporation taxes; (6) levy a withholding tax on dividends and interest."

The CIO estimated that these amendments would provide a net increase in taxes (above what Congress actually passed) of more than $2 billion. And, of course, by closing certain loopholes and eliminating certain regressive features, the CIO's proposal would have resulted in a less reactionary tax system. Unfortunately, in the absence of a united and forcefully expressed position on the part of the trade-union movement, the Administration could afford to ignore the attitude of organized labor.

In relation to the future of the tax question, the last paragraph in the CIO statement is most interesting: "Of all the raids upon the incomes of workers, farmers, professional and fixed-income persons contained in this bill, the $1.3 billion excise (sales) tax gouge is the most outrageous and, when compared to the split income and alternative tax rate loopholes for the well-to-do, the most immoral proposal in the bill. Moreover, these increases and extensions of excise (sales) taxes must be fought and should be defeated because they are preliminary steps in the campaign led by the NAM in fastening a comprehensive Federal sales tax upon the American people as part of a permanent tax policy."

In the light of the NAM-spearheaded drive to shift a substantial portion of the tax burden from the upper income groups to the lower income groups, and the apparent awareness of the CIO, at any rate, that the fight over sales taxes will become increasingly important as time goes on, the statement of Walter Reuther on taxes of August 8, 1951 (carefully ignored by the press) is of considerable interest. Criticizing the NAM's proposal, Reuther analyzes the shift in tax burden that would result were the uniform excise tax substituted for income taxes to the extent desired by the NAM: "As of 1948, the NAM's proposal would have reduced by $5 billion the tax burden on families with incomes ranging upward from $5,000 and shifted an equivalent burden onto those with income below $5,000. More than $3 billion of the savings in the upper brackets would have been gained at the expense of those with incomes of less than $4,000 a year. . . .

"In terms of its impact on individual families, the NAM proposal as of 1948 would have been equivalent to a *wage cut* of $133 a year, $2.56 a week, or 6.4 cents per hour for spending units whose breadwinners earn less than $1,000 a year. For those earning $7,500 or more the NAM seeks an income *increase* averaging $1,760 a year, $33.85 a week or 84.6 cents an hour, on the basis of the 1948 situation."

The interesting part of the Reuther statement, however, is not so much the criticism of the NAM proposals, or the existing tax structure, which largely parallels the material presented herein, especially the position of Kreps, but his proposal to adopt a spendings tax as an equitable anti-inflationary device. To quote from the press release summarizing his statement: "The kind of tax on spending proposed by Reuther was proposed by the Treasury Department in 1942 after extensive study by the department.

" 'As far as we have been able to determine,' Reuther said, 'the proposal was never given adequate consideration in Congress.'

"In describing how the tax on spending would work, Reuther said: 'In essence, the Treasury proposed (in 1942) that spending above specified exemption levels be taxed on a graduated basis. To take a hypothetical example, suppose an exemption of $1,500 per person were allowed. In that case, a family of four would be liable under the spending tax only if its spending exceeded $6,000 a year. For purposes of this example, we can assume tax rates equal to the surtax rates proposed by the Treasury, which were as follows:

Spending	*Tax Rate*
Less than $1,000 above exemptions	10%
$1,000 to $2,000 above exemptions	20%
$2,000 to $3,000 above exemptions	30%
$3,000 to $5,000 above exemptions	40%
$5,000 to $10,000 above exemptions	50%
Over $10,000 above exemptions	75%

" 'Thus, a family of four which spent a total of $7,000 would be liable to a spending tax of 10 per cent on the last $1,000 or $100. A similar family which spent $10,000 would have to pay a tax of $1,000. A four-person family spending $25,000 would pay a spending tax of $10,650.

" 'Such a tax would obviously be a powerful deterrent to nonessential spending. Yet if the exemption level were set high enough, no family would be hampered in the purchase of necessities. Every well-to-do family could maintain a high standard of living—only its standard of luxury would be somewhat curtailed. Proper exemptions would assure that only nonessential spending would be taxed. Exemptions would protect large families, who would suffer worst under a sales tax.' "

While the administrative difficulties in collecting and preventing evasion under a spendings tax would be vastly greater than Reuther is willing to admit, the proposal merits serious consideration, especially if the main emphasis in future tax programs is to be prevention of inflation. Although Reuther indicates that the revenue to be anticipated from a tax on spending along the lines he proposes would be about $10 billion, it is extremely doubtful, given its administrative difficulties, that a spendings tax could be relied on to close the gap in the Federal budget. This is our major objection to the Reuther proposal, for a tax program to be politically effective must point the way toward an end of deficit financing. Nevertheless, if the trade unions show any disposition to espouse the spendings tax, socialists should unhesitatingly give it complete support.

THE LIBERAL POSITION with respect to taxes has been indicated by the material cited from Kreps. Fundamentally, as exemplified by the A.D.A., it operates within the present tax structure, concentrating chiefly on eliminating present tax loopholes that benefit the wealthy. Most emphasis is usually placed on removing the split income provision, although Kreps also wants to "regraduate tariffs down to a maximum of 10 per cent." The liberals worry about both "not raising taxes so high as to impair incentives to work" and "placing the main burden on those who can afford to pay it." Their dilemma increasingly reflects a central contradiction of the Permanent War Economy.

The liberal position roughly coincides with that of the Administration, and is quite close to that of the labor bureaucracy. In the popular vernacular, it may be summarized as "Let's have both guns and butter." As civilian standards of living are impaired under the pressure of increasing war outlays, the liberals necessarily make concessions to the position of big capital, which may be summarized as "More guns and less butter."

It is particularly important, however, that all possible forces be united against the bourgeois contention that they do not have the money from which additional taxes could come, even if their incomes were to be confiscated. This palpable falsehood is paraded not only by the NAM, as revealed above, but by every segment of the big bourgeoisie. Their financial and economic writers take particular delight in expatiating on what they mistakenly regard as a basic fallacy in the position of everyone else. Writes Edward H. Collins, chief financial writer of the *New York Times*, in his column of October 15, 1951: "The rapidly contracting elbow room left in the upper individual income brackets is illustrated by a segregation of incomes of $10,000 or higher. If all such income were to be taxed at the rate of 100 per cent, according to a recent estimate by Harley Lutz [tax consultant to the NAM—T. N. V.], the yield would amount to only $3.5 billion. And the pending legislation proposes to take one billion of this."

Lawrence Fertig, economist apologist for the bourgeoisie, repeats the same argument in the *New York World-Telegram and Sun* of June 11, 1951, by citing statistics from Treasury Secretary Snyder's report of February 5, 1951: (see box below)

"Look carefully at these figures. Obviously the raising of three to four billion of extra income taxes will have to come mainly from the citizens of moderate incomes because the steeply progressive income tax has already stripped the higher brackets."

The answer to the canard that there is only $3.5 billion left to be taxed in the over $10,000 income bracket is that the Treasury presents all kinds of tax figures and a certain amount of obvious care must be exercised in using them, as a letter to the editor of the *New York Times* by George W. Hewitt, published on November 22, 1951, reveals. The Lutz-Collins-Fertig-NAM-*etc.* conclusion that there is practically no money left to be taxed within the bourgeoisie is based, apparently, on Table 13 of Secretary Snyder's report, where the data are based on "surtax net income." The same Treasury report, Table 12, shows that only 7 per cent of "gross income" is in the under-$2,000 class.

The manipulation, to which the Treasury has wittingly or unwittingly contributed, is explained by Mr. Hewitt as follows: "But there are two departures from previous usual custom found in Table 13 that accentuate this segregation of taxable income in the lower-income brackets and away from the higher brackets, which in our opinion may lead to misunderstanding of the conclusions reached. First, married joint returns are considered as two taxpayers, each with half of the combined surtax net income. Second, amounts subject to the 50 per cent alternative rate on long-term capital gains are excluded from income.

"INDIVIDUAL TAXABLE NET INCOME FOR 1951
(In Billions)

Surtax Brackets	*Present Tax*	*Residue*	*Total Taxable Net*
Under $2,000	$12.5	$50.2	$62.7
$2,000—$4,000	2.3	8.2	10.5
$4,000—$10,000	2.5	6.3	8.8
$10,000—$20,000	1.8	2.3	4.1
$20,000 and over	2.8	1.2	4.0
TOTAL	21.9	68.2	90.1

"In the great majority of cases it is the husband's income that determines the family status, the wife ordinarily having little or no income. We commonly think of a family in which the husband has a $22,000 salary, for example, as being in the above-$20,000 class as to gross income and slightly below $20,000 on taxable income classification. But in Table 13 viewpoint we will have two incomes, each of which will be classified as under $10,000. As married people making joint returns are 3.5 to 1 in ratio to single taxpayers, this detail should be held definitely in mind when drawing conclusions as to taxable income totals in certain groups.

"As to exclusion of long-term capital gains from income, we do not see how this can be done logically, when the Government has already set the precedent by including 50 per cent of these gains in adjusted gross income. That much of these sales is surely to be considered as income.

"Few persons have reference to Table 13 in the Treasury report. When conclusions are drawn from this table and presented to us it would be helpful to have notations made of the conditions governing the tabulation. But simpler and clearest would be to present surtax net incomes and tax based on adjusted gross income brackets and taxable returns.

"In this method of presentation it would be found that in gross income classification of over $10,000 the total taxable income of that group is $28.4 billion and tax is $9.9 billion, the difference between income and tax being $18.5 billion. In gross income classification of over $4,000 the total taxable income is $62.4 billion and tax $16.9 billion, the difference between income and tax being $45.5 billion."

Moreover, without reference to the split income feature and the omission of capital gains income, it is obvious that the income of those in the $10,000 and over *surtax* bracket is also included in all lower surtax brackets. The claim that bourgeois incomes have been virtually confiscated by high income taxes stands revealed as a miserable deception—one that on the part of the professional apologists of the bourgeoisie is either conscious, or they are guilty of gross incompetence in the handling of economic data.

Such chicanery and stupidity have, however, apparently had some effect, for an editorial in the *World-Telegram and Sun* of October 11, 1951, reveals that a Gallup poll shows 59 per cent of the population in favor of limiting Federal income taxes to a maximum of 25 per cent of anybody's income. It is also revealed that a constitutional amendment for such an income tax limitation has already been endorsed by 25 states. If 32 states go on record for such a limit, Congress will have to reckon with a constitutional barrier to higher income taxes. In fact, such a limitation would reduce existing income taxes, and automatically guarantee adoption of the NAM tax program.

A CAPITAL LEVY is the only rational approach to the current problem of taxation. That is the socialist answer

ASSETS OF BILLION-DOLLAR COMPANIES
(In Millions of Dollars)

Company	*Dec. 31, 1950*	*Dec. 31, 1949*
Bell System	$11,576	$10,775
Metropolitan Life	10,338	9,708
Prudential Life	8,924	8,325
Bank of America	6,863	6,250
Equitable Life	5,702	5,269
National City Bank	5,526	5,052
Chase National Bank	5,283	4,780
New York Life	4,908	4,675
Standard Oil (N. J.)	4,188	3,816
General Motors	3,444	2,824
John Hancock	2,960	2,697
Guaranty Trust	2,940	2,731
U. S. Steel Corp.	2,829	2,556
Manufacturers Trust	2,773	2,452
First National (Chi.)	2,599	2,461
Northwestern Mutual	2,594	2,443
Continental Ill. Nat'l	2,591	2,553
Pennsylvania RR	2,345	2,280
Mutual Life (N. Y.)	2,143	2,075
Travelers Insurance	1,995	1,879
E. I. du Pont	1,974	1,749
Southern Pacific Co.	1,854	1,760
New York Central	1,843	1,775
Bankers Trust, N. Y.	1,838	1,624
Sec. First Nat'l (L. A.)	1,824	1,713
Aetna Life	1,812	1,643
Central Hanover Bank (N. Y.)	1,770	1,592
Mellon National Bank	1,718	1,424
Chemical Bank & Trust	1,714	1,593
Standard Oil (Ind.)	1,640	1,551
Socony-Vacuum	1,610	1,472
Consolidated Edison Company	1,604	1,502
First National, Boston	1,602	1,528
National Bank of Detroit	1,568	1,366
Pacific Gas & Electric	1,513	1,322
Texas Company	1,449	1,368
Northwestern Bancorp.	1,446	1,352
Massachusetts Mutual	1,395	1,313
Santa Fe Railway	1,379	1,295
Irving Trust	1,360	1,187
Gulf Oil	1,344	1,216
Ford Motor Co.*	1,343	1,149
Bank of Manhattan	1,320	1,232
Bethlehem Steel Corp.	1,314	1,155
Penn Mutual	1,300	1,241
Mutual Benefit	1,299	1,238
General Electric	1,277	1,171
First Bank Stock	1,273	1,227
Marine Midland	1,266	1,199
Union Pacific	1,247	1,177
Baltimore & Ohio	1,243	1,220
Standard Oil California	1,233	1,158
Cleveland Trust	1,222	1,120
Commonwealth Edison	1,194	1,115
C. I. T. Financial	1,174	996
New England Mutual	1,170	1,083
American Trust San Francisco	1,091	992
Sears, Roebuck†	1,033	808
TOTAL	147,782	136,730

*Ford Motor reports once annually in September to Massachusetts State Tax Commission. Latest figures given above are for Dec. 31, 1949 and Dec. 31, 1948.
†Fiscal year ended Jan. 31, 1951.

to the NAM tax program and other proposals to make the working masses bear the main burden of supporting the war economy. A levy on capital is not only just since the war economy has as its primary aim the protection of the wealth and power of the capitalist class, but it is the only method of taxation that can readily and easily raise the huge sums that the bourgeoisie claim are necessary to support the capitalist state.

Historically, socialist parties, particularly in Europe, have traditionally mentioned a capital levy whenever the problem of taxation has become acute, but the literature on the subject is rather sparse. In the United States, a proposal for a graduated capital levy was made by former Senator Elmer A. Benson of Minnesota. The Benson proposal was inserted in the Hearings on the Revenue Act of 1942 by Benjamin C. Marsh, representing the "People's Lobby." "The proposed tax or capital levy would be in effect for 1 year and would be levied on the total value of all property owned by individuals at a graduated rate from 1 to 20 per cent, and the tax would be payable in 18 monthly installments with a 6 per cent discount for payment in advance. Married persons would be given a credit in paying the tax of $500 and single persons a credit of $300."

The Benson capital levy was a naive proposal, whose rates on personal property would run from 1 per cent on $10,000 and under to 20 per cent on all personal property over $1 million. It would have been difficult to collect and would not have raised any great sum, for the major capitalist wealth is owned by corporations. Moreover, there is little point in attempting to assess personal wealth that is not functioning as capital. It is capital that is responsible for the development of the Permanent War Economy and it is capital that should be taxed to provide the finances that the bourgeoisie consider to be necessary.

To keep the capital levy simple and easy to administer, it should at this time be assessed not on all corporations, but on those with assets in excess of $1 billion. There were 58 such billion-dollar companies at the end of 1950, whose combined assets totalled almost $148 billion. A 10 per cent capital levy on corporations whose assets exceed one billion dollars would therefore raise $15 billion. This would be more than ample to balance the Federal budget, even after rescinding the increases provided under the Revnue Act of 1951.

A survey by Alfred F. Connors, copyright by United Press, was published toward the middle of 1951 on the firms with assets in excess of one billion dollars. The list below was taken from the *New York World-Telegram and Sun*, and compares these 58 leading corporations' assets at the end of 1950 with end of 1945.

The 58 largest companies, ranked by their assets at the of 1950, can be grouped as follows:

Number	*Type*	*Assets (Billions)*
15	Insurance Companies	$59.4
20	Banks	48.3
6	Manufacturing	12.2
6	Oil	11.5
6	Railroads	9.9
3	Public Utilities	4.3
2	Miscellaneous	2.2
58	All types	147.8

It will be seen that 35 banks and insurance companies account for $107.7 billion, or almost 73 per cent of the total assets of the leading 58 billion-dollar firms. Thus, if it be objected that a capital levy of 10 per cent on gross assets would create insurmountable difficulties as the banks and insurance companies may not have a 10 per cent equity in their total assets, our proposed capital levy can easily be transferred to a 10 per cent tax on all corporations with net assets in excess of one million dollars.

Such a tax on capital would easily raise more than enough to balance the Federal budget after rescinding the increases contained in the Revenue Act of 1951, for a glance at Table VIII-A of Part III (THE NEW INTERNATIONAL, May-June 1951) shows that the book net assets of 3,304 leading corporations on January 1, 1950 totalled $101.9 billion. Since that compilation by the National City Bank excluded the banks and insurance companies, there cannot be more than $40 billion of duplication even if there were no difference between net and gross assets. The banks and insurance companies, however, should not escape from a capital levy, as of all privately owned institutions they are the most parasitic and are strong candidates for nationalization even under capitalism.

A 10 per cent capital levy on the net assets of all business firms with net assets over $1 million would therefore yield at least $15 billion. Most corporations could pay such a tax out of surplus and undivided profits. Those that could not could either borrow the money or arrange to turn over an equivalent amount in shares of stock to the government, sufficient to pay their capital levy tax liability.

In other words, contrary to the position of the NAM that taxes must be paid out of current income, there is no reason why taxes cannot be paid out of past income by those who have accumulated capital through exploiting the labor of others. To the extent that the workers and lower middle classes own stock in corporations that would be subject to the capital levy, they will gladly reduce their equity in such means of ownership by 10 per cent.

Of course, the rantings of the bourgeoisie and their paid hirelings against a capital levy can easily be imagined. They will cry "socialism," as if that were an argument. Actually, a capital levy is possible only under capitalism, although it might well be a step in the direction of socialism. It is doubtful, however, that a 10 per cent levy on capital would seriously impair the functioning of capitalism. They will also "argue" that a capital levy is inflationary, for corporations "would have to increase the prices of their commodities and services sufficiently to recoup the losses of capital arising from the capital levy." Why this follows would be clear only to those who believe that the rights of property are sacred and at all times to be placed above human rights. In any case, maintenance of price control would prevent a sudden recoupment of the capital that has been taxed away. If anything, a capital levy would be deflationary for capital accumulation is one of the main contributing forces to inflation.

IF THE BOURGEOISIE object to a 10 per cent capital levy as too radical, we can offer them as an alternative the proposals of two of their most eminent spokesmen. We refer first to the late President Roosevelt and his proposal that during World War II a ceiling of $25,000 be placed on individual incomes. If such a proposal possessed validity at that time, as it did, it is surely even more germane to a fight for capitalist survival against Stalinism, which is the underlying *raison d'être* of the Permanent War Economy today.

And, if Roosevelt was too radical for the American capitalists, we give them that arch-capitalist, Bernard M. Baruch, who wrote a 500-page book in 1941 called *American Industry in the War*, the main theme of which is "Take the Profit Out of War." In his testimony on the need for price control, published in the *New York Times* of September 20, 1941, Baruch amazed his fellow capitalists by stating:

"We have talked for years of taking the profit out of war. Price control is one of the ways to do it. The inflationary process affords an opportunity to many to reap huge rewards, while the average person with a fixed income must tighten his belt . . . America, which has refused to take a foot of territory for its own war profit, should show the way so that its citizens shall not profit from war. I cannot emphasize this too strongly. We have talked about it, we have written about it, we have preached about it, which is another characteristic of the Permanent War Economy stage of capitalism. The figures suggest that about 10 per cent of total output must be spent in the form of war outlays before the latter become significant in their impact." (*The New International*, January- February, 1951, p. 38.)

Actually, what has happened is that the ratio of war outlays to total output is beginning to decline. This trend was already evident prior to the start of the new Stalinist "peace offensive." It appears likely that it will become more pronounced in the near future. There is still no evidence, however, that capitalism intends to abandon the Permanent War Economy. Both political and economic considerations clearly exclude such a variant.

If we revert to the analogy of "habit-forming drugs," used in the introduction to Part III of the series on the Permanent War Economy, "Increasing State Intervention," (*cf. The New International*, May-June, 1951, p. 132), we can refer to the economy as a drug addict. War outlays are the drug which has sustained a high level of economic activity. As is apparently the case with pathological drug addicts, a constantly increasing dosage is required in order to maintain the same effects of activity as previously. The measurement of the "dosage" is the ratio of war outlays to total output. Even a stable ratio of war outlays leads to a process of atrophy setting in. The "appetite" of the economy for war outlays increases steadily. If the ratio of war outlays to total output, although significant, merely remains level, tendencies toward a slackening in activity begin to appear in various sectors. If, on top of this, an actual decline in the ratio of war outlays to total output is to be recorded, then deflationary consequences are unavoidable. How much deflation is, of course, another question. There can be deflation without depression, in any recognizable meaning of the term.

Inasmuch as it is now more than two years since the basic calculations were made in the development of the theory of the Permanent War Economy, we can now substitute actuals for our estimates. This is done below for the period 1949-1952 inclusive.

Our concept of measuring the ratio of war outlays by comparing direct and indirect war outlays to net national product remains as heretofore stated. Our concepts of direct and indirect war outlays, however, have undergone some modification because in the interim Commerce has redefined and republished the Federal war component of Federal government purchases of goods and services. This has been in the form of a series entitled "national security," which is broken down into "national defense" and "other national security." The definitions, contained in the July, 1952, issue of the *Survey of Current Business*, are: "national defense purchases comprise the purchases of the Atomic Energy Commission, Defense Department, Maritime Administration (before 1950), National Advisory Committee for Aeronautics, and Selective Service System, together with purchases for the programs of defense production and economic stabilization, foreign military assistance administered by Mutual Security Agency (formerly Mutual Defense Assistance program), and the stockpiling of strategic and critical materials." This is a broader concept than we previously used, and involves shifting from indirect to direct war outlays such programs as atomic energy, foreign military assistance and military stockpiling. There can, however, be no objection to this revised definition of war outlays.

The "other national security" series of Commerce forms only one part of our concept of indirect war outlays, for it is defined as comprising those purchases of "the Maritime Administration (after 1949), National Security Council, National Security Resources Board, Philippine Damage Commission, and State Department, as well as purchases for the following foreign economic assistance programs: those now administered by the Mutual Security Agency, government and relief in occupied areas, India Emergency Food Aid, International Children's Emergency Fund, and Yugoslav Emergency Relief Assistance. To this base, we have added purchases of the Veterans' Administration, as well as certain minor governmental programs, as explained in Part I, p. 36 of the January-February, 1951, issue of *The New International*.

The differences between our revised calculations and our earlier estimates may be seen by comparing the ratios of war outlays to total output, as follows:

WAR OUTLAY RATIOS

	Revised	*Original**
1949	11.4%	10.6%
1950	9.9	10.9
1951	14.1	20.0
1952	17.1	21.1

*Taken from Table B of Part I, January-February 1951 issue of **The New International.**

Not only did we fail to take into account the degree of inflation that actually occurred (in fact, we deliberately made no attempt to forecast the amount of inflation), but we also underestimated the real increase in production and overestimated the amount actually spent on war outlays, as there developed a considerable lag between military expenditure plans and actual purchases. There was, in addition, of course, the conscious stretching out of the defense program by the Truman Administration. The trend line of our new series differs markedly from the old. War outlays have not reached the 20 per cent level, and the necessity for direct controls on production and prices has diminished. Moreover, the rate of increase in the ratio of war outlays to total production has been significantly less than predicted, thereby encouraging the process of atrophy to develop.

The pronounced change that has occurred in the economic outlook may be seen quite clearly from examining the 1952 data on a quarterly basis, while remembering that in our original forecasts we had expected the peak ratio of war outlays to be reached in 1953, as was at that time the apparent plan. On the assumption that net national product will show the same trend as gross national product, and the further assumption that our total war outlay series will corre-

WAR OUTLAYS, 1949-1952
AND THEIR RELATIONSHIP TO TOTAL OUTPUT
(Dollar Figures in Billions)

Year	*Net National Product* (1)	*WAR OUTLAYS* *Direct* (2)	*Indirect* (3)	*Total* (4)	*Col. (4) As % of Col. (1)* (5)
1949	$238.9	$13.6	$13.7	$27.3	11.4%
1950	262.6	14.2	11.7	25.9	9.9
1951	304.6	33.7	9.3	43.0	14.1
1952*	320.4	46.0	8.8	54.8	17.1

*Net national product is derived from gross national product for 1952, as shown in the March, 1953, issue of the **Survey of Current Business**; war outlays are derived from the Commerce series on National Security, together with the Treasury series on National Defense and Related Activities. Our estimates, therefore, follow the procedure explained in the text and are dependent upon official government figures.

late closely in trend with the Commerce series for total national security, we can construct index numbers for the quarterly ratios in 1952, with the first quarter of 1952 as base. We then obtain the following picture:

INDEX NUMBERS OF WAR OUTLAYS RATIO

First Quarter 1952	100
Second Quarter 1952	107
Third Quarter 1952	106
Fourth Quarter 1952	102

As can be seen from the above tabulation, the incidence of war outlays during the current military build-up reached a peak during the second quarter of 1952. A slight decline during the third quarter of 1952 was followed by a more significant decline in the last quarter of the year. Present information indicates that this trend continued during the first quarter of 1953. Here, then, we have cogent economic reasons for the setting in of a deflationary trend. The fact that the ratio of war outlays to total ouput can change in both level and direction during the epoch of the Permanent War Economy is a factor of enormous importance in appraising current trends in the economy, and one of the more neglected aspects of the theory of the Permanent War Economy.

On reëxamination, therefore, we feel that our basic conclusions remain valid, although certain formulations may require modification and several of our short-term predictions are invalidated by faulty assumptions. We have, for example, referred to the chronic character of inflation under the Permanent War Economy. Over a period of years, this remains true; yet, as we did indicate, there will be ups and downs in the price level. Hence, a formulation such as "This rate of increase in the price level will continue to be maintained, regardless of controls, because inflation is unceasing and permanent" (Part II, "Declining Standards of Living," March-April, 1951, issue of *The New International*, p. 89) is incorrect. It has to be modified by the demonstrable fact that there is a marked variation in the ratio of war outlays to total output, and during the period when the ratio declines, the inflationary pressures are reduced and, in many cases, converted into their opposites—i.e., deflationary pressures. . . . .

In retrospect, it is clear that our major error of fact was our gross underestimation in the amount of capital accumulation that could be expected to take place in the period following the outbreak of the Korean war. While we consciously underestimated in order to maximize the amount of civilian output available to sustain civilian standards of living, we neglected to take into sufficient account the fact that even at a 20 per cent level of war outlays there was room for sizable private capital accumulations that did not exist in 1943-1944, when the ratio of war outlays exceeded 40 per cent. As a consequence, we have underestimated the impact of capital accumulation in sustaining the inflationary boom. By the same token, we have not given full weight to the increase in productive capacity to which these unusually large capital accumulations have given rise.

It may help, therefore, if we set the record straight by presenting revised actual figures on capital accumulation in substitution for our previous estimates. As before, we equate capital accumulation to net investment in the Commerce private capital formation series. This procedure possesses several weaknesses, especially a dubious treatment of inventory accumulation, but it is the only handy official series and serves the purpose of providing a broad picture of what has happened in this vital sector of the economy.

For the seven post-World War II years, 1946-1952, net private investment totals more than $174 billion, averaging about $25 billion annually. This means that on the average 10 per cent of the net output of each year has been added to the capital stock. There has, consequently, been an enormous increase in productive capacity. This substantial increase in capacity manifests itself first and foremost in durable goods, especially consumer durables. Passenger automobiles, for example, could be produced at a rate of seven million a year and production for 1953 is expected to exceed six million. Since this comes on top of six high production years in a row, there may possibly be some difficulty in disposing of the entire output. The Reuther report, previously cited, states (p. 64): "The industry as a whole, however, is becoming uneasy about future marketing prospects." In fact, it is a rather open secret in the trade that what prompted the recent price reduction in the Chrysler line is that their cars are backed up all the way to the factory. In short, it may not be long before sales for the entire passenger auto industry fall short of production. Automobile production remains the bellwether of the civilian economy. A similar trend may be expected in several important durable goods lines, thereby adding to the deflationary forces enumerated above.

In discussing the increasingly high organic composition of capital in Part III, "Increasing State Intervention," in the May-June, 1951, issue of *The New International*, we stated (p. 150): "Precisely where the breaking point is likely to be, no one can say, but it is clear that the composition of capital is already dangerously high and constitutes a sword of Damocles, hanging over the unsuspecting head of such a highly-geared capitalist economy that in a few years it is possible to produce all the automobiles, television sets, etc., that can be sold under capitalist conditions of production." While precise figures are not available, all available evidence indicates that the composition of capital has continued to increase. Theoretically, these trends ought to result in a falling average rate of profit. Empirical evidence indicates that both the mass and rate of profit did begin to decline in 1952.

If the net investment figures developed in the previous table are compared with net national product (total output) for the same years, 1946-1952, it will be seen that the ratio is 10 or 11 per cent in all but two years. These were 1949, when an "adjustment" took place, and 1952, when a plateau was reached and the beginnings of an adjustment are apparent. In 1949, the ratio of net investment to net national product was 6 per cent. In 1952, it was 8 per cent.

NET PRIVATE CAPITAL FORMATION, 1946-1952
(Billions of Dollars)

Year	*Gross Investment*	*Capital Consumption Allowances*	*Net Investment*
1946	$33.3	$12.2	$21.1
1947	39.1	14.8	24.3
1948	44.6	17.6	27.0
1949	34.0	19.4	14.6
1950	48.0	21.5	26.5
1951	58.7	24.6	34.1
1952	52.4	25.9 est.*	26.5 est.
TOTAL	310.1	136.0	174.1
AVERAGE	44.3	19.4	24.9

*Estimated assuming the same ratio of net to gross national product in 1952 as in 1951.

The pressures previously cited that would lead to increasing reliance on state foreign aid, given the continued low level of private exports of capital, remain. To what extent the Eisenhower Administration will curtail state foreign aid remains to be seen. In any case, exports of capital, both state and private, are unlikely to increase and cannot offset the deflationary trends analyzed above.

Some deflation is clearly in process of taking place. The question remains: how much? A sober consensus is given by Thomas F. Conroy in the *New York Times* of April 12, 1953: "While the economy appears to be entering a deflationary transition period which may involve some setback and certainly intense competition, business and industry do not face another 1929. There are too many favorable differences between 1953 and 1929."

In Part V of the Permanent War Economy, "Some Significant Trends," September-October, 1951, issue of *The New International*, we stated (p. 254): "A sharp reduction in war outlays in the near future is therefore unlikely and would in a remarkably short time cause a collapse of the economy." There seems no reason warranting change of this forecast. The ratio of war outlays to total output may decline to 15 per cent or thereabouts, but there is no indication that any sharp reduction in war outlays is in prospect. In fact, peace or no peace in Korea, according to Anthony Leviero in the *New York Times* of April 8th, "John Foster Dulles, Secretary of State, is planning to go to the North Atlantic Treaty Council meeting in Paris on April 23 with a restatement of this country's defense policy predicated on *ten or twenty years of tension*." (Italics mine—T. N. V.)

It does seem possible, however, that at a 15 per cent level it is possible to dispense with most direct controls, although it is worth noting that the Eisenhower Administration has been forced to set up a permanent control establishment in the Office of Defense Mobilization. This agency will undoubtedly be responsible for introducing the stand-by controls in the event that they become necessary.

While official forecasts are necessarily optimistic, indicating that there will be no deflation, it is apparent that some deflation, accompanied by rising unemployment, perhaps to the level of the five million forecast by *Fortune*, is the likely order of events over the next two years.

NI, Mar./Apr. 1953

THE COLD-WAR ECONOMY

In their issue of May 26, the editors of the well-informed U. S. News & World Report ask and answer the question: Why is Truman so cocky about the prospects of continued U. S. prosperity?

U. S. prosperity is regulated by the cold war.

Here it is in their own words, in the telegraphic style affected in the magazine:

"Government planners figure they have found the magic formula for almost endless good times. They now are beginning to wonder if there may not be something in perpetual motion after all.

"The formula, as the planners figure it, can work this way:

"Rising money supply, rising population are ingredients of good times. Cold war is the catalyst. Cold war is an automatic pump primer. Turn a spigot, and the public clamors for more arms spending. Turn another, the clamor eases.

"A little deflation, unemployment, signs of harder times, and the spigot is turned to the left. Money flows out, money supply rises, activity revives.

"Good times come back, boom signs of shortages, speculation and the spigot is turned to the right. Cold war talk is eased. Economy is proposed. Money is tightened a little by tighter rein on government-guaranteed credit, by use of devices in other fields. Things tend to calm down, to stabilize.

"That's the formula in use. It's been working fairly well to date. ...Cold war demands, if fully exploited, are almost limitless....

"Coolidge era of the 1920s was an era of expanding private credit. It blew up when private creditors got frightened over excesses and ran for cover. Mr. Truman is told that the Truman era, based on public credit, can be longer lived, more stable, less subject to sudden upset."

It should be noted that there are two elements in the above theory. One is the element of the Fair Deal's semi-conspiratorial use of the cold war as a spigot; the other is the objective connection between government cold-war spending and the present peculiar type of Truman prosperity.

The former is the more shaky theory, of course; although it must be added that the National Council Against Conscription has also insistently pointed to the signs of a deliberate and systematic use of cold war scares, manipulated from Washington, to achieve administration objectives.

LA, June 5, 1952

"One third of the nation's total business activity now springs from the defense buildup." That startling statement is the keynote of an Associated Press report quoting "top government economists."

They said that "before Korea, only about 7 to 10 per cent of business stemmed from national security spending," and now that share has risen to over 30 per cent.

According to the AP, the government economists "asked not to be quoted by name," but they made comments like this:

"It's perfectly obvious that, without the defense program, we would be in a recession at the present time. The only thing holding the economy together at the present level is defense."

●

The above news item is quoted from the railroad unions' weekly *Labor* for May 31. There is a curious sidelight on that too. The same week, it was heard as part of a news broadcast over the radio station of the New York *Times*, WQXR; but it never appeared in the *Times* as far as we know.

Yet it points to one of the most important over-all facts about American society today, bar none.

The figure is "startling," as *Labor* says, only because it is somewhat higher than previous estimates. But what it points to is *the stage of American capitalism which we have called the* Permanent War Economy.

LA, June 23, 1952

THE PROP OF PROSPERITY

One of the outstanding exponents of the view that war outlays have had nothing to do with sustaining a high level of economic activity is W. S. Woytinsky. Writing in the *New Leader* of December 7, 1953, Woytinsky states: "My forecast here is based on the belief that the prosperity enjoyed by this country in recent years has *not* been a Korean War prosperity. It has been rather a period of healthy growth of a vigorous and dynamic economic system, with the benefits of growth widely though unevenly distributed among broad groups of the population." To label the post-World War II expansion of American capitalism "a period of healthy growth" betrays a singularly acute lack of understanding of the world in which we live.

The main prop in Woytinsky's unique approach to the economic outlook is contained in a paragraph from his prognosis of a year ago (cf. the *New Leader*, December 8, 1952): "The liquidation of the defense program would mean reorientation of economic activities and a brief spell of hesitation, but by no means a contraction in the total volume of employment and production. *The problem will be of the same nature as the demobilization after World War II, but on a much smaller scale.* The last demobilization—in the sense of complete reorientation of our economy and readjustment of men released from the armed forces—took two years, and at no time did unemployment rise to 3 million in the period of readjustment. The liquidation of the present defense and rearmament program would take much less time and cause much less frictional unemployment." (Italics mine—T. N. V.)

Of course, there will be no liquidation of the defense program, although some slight reduction in the magnitude of war outlays is not excluded. The adjustment problem, however, in the event of a reduction in war outlays is not only not the same. It is entirely different. At the end of World War II, the ratio of war outlays to total output exceeded 40 per cent. A swift decline took place to the ten per cent level, but the reduction in the production of means of production and consumption during the war meant that there was room for increase in these traditional goals of economic output once the sharp decline began in the production of means of destruction. Hence, there could be no serious depression immediately following the end of World War II. It is obvious that the present situation differs markedly from that which prevailed eight years ago. The current increase (from 1950-1953) in the output of means of destruction has not only not been accompanied by a decrease in the output of means of production and means of consumption, but has actually witnessed an increase in the production of both capital and consumers' goods.

Woytinsky possesses a remarkably simplistic and mechanical view of the economy, where a drop in one sector *must* be offset by increases in other sectors. In his 1952 article, quoted above, he asserts: "Whatever goes to the military sector is taken from civilian consumption and capital formation. Whatever is released from the military sector returns to the civilian." Here we have a modern version of Adam Smith's "unseen hand" that automatically takes care of the economy and all supporters of capitalism, but somehow fails to eliminate the "unemployment" sector.

An effective reply to Woytinsky was given by Seymour E. Harris in the *New Leader* of December 22, 1952, when he wrote: "I find serious gaps in Dr. Woytinsky's crystal-gazing. He says not a word about the tremendous investment since 1945. Our capital plant has expanded by 50-60 per cent (in real terms) since 1945. These gains are far beyond what prevailed in the inflationary Twenties. Yet Dr. Woytinsky writes as though, when the Government cuts its spending on armament by 20 billion dollars or so, part of the slack will be taken up by business. A more realistic view would be that the decline of Government spending would aggravate a decline in investment."

Harris has put his finger on one of the central problems when he focuses on investment. He would also appear to be more realistic than Woytinsky in appraising the possibilities of government investments as offsets to declining war outlays. He states: "It is this failure to suggest the alternatives that leaves me cool to Dr. Woytinsky's astrology. His assumption of gains in investment seems unrealistic. His suggestion that Government will substitute investments of various kinds for military outlays also is unsupportable. A Democratic regime, supported by an ideology favorable to deficit financing, was not prepared after twenty years of rule to present a catalogue of investment adequate to do this job; and even if it had, it was confronted with strong opposition. Does Dr. Woytinsky mean to imply that the Republican Administration will be more disposed to plan for Government intervention when military expenditures fall and thus to fill the gap? It is possible, but certainly not likely."

After pointing out that tax reduction is the more likely response to a cut in military outlays, and that tax reduction can have only a limited stimulus on demand. Harris concludes his refutation of Woytinsky: "In summary, the signs point to a business recession in 1953 or 1954—unless the war is extended. Dr. Woytinsky does not seem concerned over the possibility of adequate demand even if the whole military program is scrapped. He seems to believe that tax reduction and pent-up demand (compared by Dr. Woytinsky with the 1946 situation, and wrongly so) will solve our problem."

Woytinsky returns to the economic hustings in his "Economic Forecast for 1954," the title of his current article, quoted above, with a modification of his "changing sector" theory of the previous year. This might be called the "excess fat" theory, for he states: "Our economy has accumulated such an amount of fat and muscle that it is hard to visualize its temporary contraction to a level that would spell out a 'mild recession' such as contemplated a year ago. This is said even while giving full weight to at least four problems which have often been mentioned as presaging a downturn. These are the position of the farmer, possible cuts in defense expenditures, a new economic philosophy in Washington, and possible reorientation of foreign-trade policy."

Apparently, Woytinsky is not up on the latest dietary theories, for the "excess fat" represents as much of a danger as it does a cushion. Moreover, the extra weight would seem to consist mainly of "fat" rather than of "muscle." Unemployment caused by declines in production from peak levels is just as real to those who are placed in the category of surplus labor as unemployment that develops from a lower production base. An increase of unemployment from one million to five million may not be as catastrophic in its impact as an increase from five million to nine million, but it is still serious and would certainly constitute at least a "mild" recession.

"The cut in defense expenditures as a source of contraction of purchasing power is, to a large extent," according to Woytinsky, "a bogey man in the modern folklore of business forecasting. The cut of $5 billion in the requested appropriation does not imply that Government purchases in 1954 will be substantially reduced in comparison with 1953. The real volume of purchases will depend partly on changes in prices, partly on political developments which may call for new appropriations. As things look now, total Government expenditures may decline by $2 billion or $3 billion or increase by a similar or larger amount." In other words, Woytinsky is not especially concerned with a projected cut in war outlays—not because "prosperity is independent of the level of war outlays" as was his position a year ago, but because there won't be a real cut in 1954. Besides, if there is a real cut, there is plenty of fat, so it won't be serious. And, if the "excess fat" theory doesn't work, then there may be "political developments which may call for new appropriations." If war expenditures are not present in sufficient volume to prevent a recession, then there will be other types of government expenditures. Woytinsky is convinced that the economy will continue to expand in 1954, and he will find a theory to support that point of view, even if he has to alter or repudiate his earlier theories.

NI, Nov./Dec. 1953

HOFSTADTER ON MILITARY KEYNESIANISM

In an article, "American Power: The Domestic Sources" (*American Perspective*, Winter 1950) Richard Hofstadter, the author of *The American Political Tradition*, makes a point often emphasized in *LA*:

"To a large degree our domestic economy is underwritten by the combined power of our military preparation and our economic aid to Western Europe. The services of our so-called Welfare State are dwarfed by the combined bulk of foreign economic aid and defense appropriations. In the days of the New Deal, Franklin D. Roosevelt's seven billion dollar budgets were stigmatized by his opponents as fantastically high; today, in an age of forty billion dollar budgets, expenditures of over eleven billion dollars for defense alone and seven billion dollars for foreign economic aid pass with far less partisan excitement than the much smaller New Deal budgets.

"We have thus reached a point at which our domestic economy, by a singular irony, is underwritten by the very precariousness of our situation in the cold war. We are less free than we have ever been at any time in our history to confront the realities of our domestic problems unhampered by fundamental and costly considerations of security, or to attack these problems with anything like our full resources. Simultaneously, a kind of floor is provided to our economic activity insofar as a minimum level of employment is guaranteed by our immense national budget. We are living under a curious kind of military Keynesianism in which Mars has rushed in to fill the gap left by the decline of the market economy. At home we enjoy the fictitious luxury of a prosperity without welfare, a prosperity insured by peril. Abroad we blunder badly, perhaps half conscious of the fact that if we cease to provide ourselves with peril we would deprive ourselves of our insurance..."

LA, April 3, 1950

ECONOMIC PROSPECTS

No matter what measure is taken, whether it be the Federal Reserve index of production or just such a simple index as the output of steel, or any other likely measure, there is no doubt that 1955 was the number one year so far as production is concerned in the history of American capitalism.

This remarkable performance of the American economy, which to a certain extent is paralleled by the rest of the capitalist economy throughout the world, has persuaded some bold apologists for the bourgeoisie and some ex-socialists to reach the conclusion that there is no longer any class struggle in the United States; that depressions are a thing of the past and that through some miraculous process (not quite clearly understood or explained by anyone) the millenium has arrived. There is no longer any need to advocate socialism because American capitalism, under the Eisenhower Administration, has produced a land of plenty and permanent prosperity. Some even go so far as to refer to this new utopian state of affairs as the "land of permanent peace and prosperity."

The process by which The Permanent War Economy becomes "permanent peace and prosperity" is a triumph for the semantic arts. The question remains, however, to what extent, if any, has capitalism under The Permanent War Economy eliminated the business cycle, or, if you prefer, eliminated severe depressions?

The interest in the subject is such that the Chamber of Commerce of the United States has devoted an entire pamphlet to the subject, entitled, "Can We Depression-Proof Our Economy?" This pamphlet refers to the adjustments and increases in production that have taken place since the end of World War II, and to the fact that there are "Numerous automatic built-in stabilizers or cushions which we did not have in 1929."

"All these factors," the pamphlet concludes, "have lead some students to believe that we are more or less depression-proof; or at least, that serious general depressions are less likely to occur than formerly." The question is then raised: "Is this optimism justified? Or, have we merely been the beneficiaries of exceptionally favorable postwar factors?"

The United States Chamber of Commerce then proceeds to review the "evidence." A Prentice-Hall release is cited in which it is stated that: "It is becoming crystal clear that serious depressions have been abolished in the United States by popular vote." *(Sic!)*

It is pointed out that the 1953-1954 recession was unusually mild and the fact that it did not degenerate into a full-fledged depression is most heartening and perhaps warrants the belief that there are some new factors on the scene in the form of these "built-in stabilizers," and while no categorical statement is made, the presumption is that perhaps, at the very least, severe depressions are a thing of the past.

On the other hand, the Chamber of Commerce proceeds to point out to those that are unduly complacent that they should take heed from the warning issued by J. K. Galbraith published in *Harper's* magazine, October, 1954, to the effect that "important people begin to explain that it cannot happen because conditions are fundamentally sound." From which Mr. Galbraith draws the conclusion that that is precisely the time to worry because another collapse, comparable to 1929, in his opinion, is definitely possible. The Chamber of Commerce, moreover, does not lose sight of the political importance of the subject. It points out that "if we attain this target [sustained prosperity], other domestic problems will remain manageable. For international reasons as well, the attainment of this goal is important. It will refute the Marxists' criticisms of private capitalism both here and abroad." The question of the so-called new perspective and economic outlook, that is, permanent prosperity, has engaged the President's Council of Economic Advisers. In their 1955 economic report to the President, they review the experiences of the 1953-54 recession and draw the following lessons (quoted by the U. S. Chamber of Commerce):

> First, that wise and early action by government can stave off serious difficulties later;
>
> Second, that contraction may be stopped in its tracks, even when governmental expenditures and budget deficits are declining, provided effective means are taken for building confidence;
>
> Third, that monetary policy can be a powerful instrument of economic recovery, so long as the confidence of consumers and businessmen in the future remains high;
>
> Fourth, that automatic stabilizers, such as unemployment insurance and a tax system that is elastic with respect to the national income, can be of material aid in moderating cyclical fluctuations;
>
> Fifth, that a minor contraction in this country need not produce a severe depression abroad;
>
> Sixth, that an expanding world economy can facilitate our own readjustments.

Lest the apostles of the new religion of "permanent peace and prosperity under capitalism" jump to the conclusion that they have a real ally in the United States Chamber of Commerce, let us point out that immediately after the analysis presented above and the quotation from the President's Council of Economic Advisers, the United States Chamber of Commerce states: "It would be difficult to find a single economist who believes, as some did in the late 1920s, that we are, indeed, depression-proof."

If the United States Chamber of Commerce is not ready to take the plunge into the new camp of "permanent peace and prosperity under capitalism," there are others who are not quite so cautious. And that is pretty much the position of Sumner H. Slichter which he has expressed in various articles, including one published in the *Atlantic Monthly* for May, 1955, entitled, "Have We Conquered The Business Cycle?"

While Slichter likes to leave himself an "out," he is also fond of making headlines. For example, in a recent article of The New York *Times* Magazine section of December 4, 1955, dealing with the relationship of our economy to politics, Slichter states: "A severe depression would undoubtedly sharpen the differences between the parties in the United States and would accentuate the influence of the left-wingers in the Democratic Party, *but the days when this country can experience anything worse than moderate or possibly mild depressions are gone forever.*" (My italics—T.N.V.)

WHAT ARE SOME OF THESE "built-in stabilizers" that are supposed to have eliminated severe depressions and achieved a more or less permanent modification in the business cycle? They are summarized by the United States Chamber of Commerce in the aforementioned pamphlet as follows:

(1) The quick offsetting reactions which occur in our tax structure, with the heavy reliance on the income tax; (2) Stability and size of the government expenditures; (3) The farm price support program; (4) Unemployment compensation; (5) The numerous private and public pension programs; (6) The Federal Deposit Insurance System; (7) The self-amortizing nature of most private debt; and (8) The volume of liquid assets held by individuals and businesses.

To the extent that these factors mean anything—and they do mean something that is very important—what is being said here is that capitalism under The Permanent War Economy has achieved a life of more or less permanent government intervention and that this government intervention has modified the business cycle.

Certainly the government's Council of Economic Advisers takes credit for the fact that serious economic fluctuation or depression has been avoided in the past few years. Its chairman, Dr. Arthur F. Burns, puts it this way:

These are the basic premises that have controlled our business cycle policy in the recent past. If governmental policy in the months and years ahead continues to adhere to these premises, if government steadily maintains a watchful eye on the state of business and consumer sentiment and if it gives heed to the need of avoiding inflation as well as depression; we may, I think, be reasonably confident that—although we are likely to continue to have fluctuations in individual markets, to some degree even in the economy as a whole—we will avoid in the future the business depressions that have marred our brilliant record of free enterprise in the past.

This would seem to put the Council of Economic Advisers, an official government body, almost in the camp of Sumner Slichter.

The United States Chamber of Commerce concludes its pamphlet on this question as follows:

Are we, then, depression-proof? *Prolonged and deep depressions are avoidable and will not occur again, unless we take complete leave of our wits—which could be.* Minor fluctuations and rolling adjustments in industry after industry are inevitable. While having unfortunate aspects, they nevertheless perform a useful and essential function. Individual companies will face changing fortunes. Crises in international affairs can be upsetting. Domestic political uncertainties, threats of undue business regulation or taxation—these and many other factors could undo the promising developments in the field of stabilization. *Stability has to be earned.* (Italics in original only in the last sentence.—T.N.V.)

Is this a new era or is it not? On the one hand, severe depressions are avoidable and will not occur, that is, "unless we take complete leave of our wits," but apparently it is possible, according to the United States Chamber of Commerce, that we may take complete leave of our wits. And one suspects that taking complete leave of our wits has reference to such measures as increasing the minimum wage law, *etc.*

Let us not be completely disheartened because later on in its conclusion the Chamber of Commerce makes the fairly bold statement: *"If we have the courage to avoid excessive booms and the wit to use what we know, there is reason to believe that future instability can be kept within fairly tolerable limits." (Sic!)* In other words, if we can avoid depressions there will be no depressions. But how do we know we can avoid depressions?

Lest anyone accuse the United States Chamber of Commerce of a definitive statement on a subject of this kind, we must quote the very last sentence in their brochure: "And, since the future can never be foreseen with certainty, it is always wise to *watch out for surprises.*"

Lest there be any possible misunderstanding on this question, let us make it perfectly clear. If capitalism can succeed in eliminating the business cycle, *i.e.*, in achieving permanent peace and prosperity, then not only has the class struggle been so transformed as to be unrecognizable but clearly there will be no need for a socialist form of society to organize the productive forces for capitalism will have guaranteed their *permanent* increase. The question, therefore, is of great theoretical and practical importance.

If the performance of the economy in 1955 was at record levels, the outlook for 1956 is clearly relevant. . . .

Dr. Nourse's testimony is worth study. He states:

The real change came when we passed from this kind of continuous process mechanization to that in which electronic devices make it possible to dispense to considerable extent with the mental element in manual control and to use the feedback principle extensively. Under this principle electronic mechanisms make it possible to conduct more elaborate, more economical, and more precise continuous productive operations because the outcome of the process controls the process itself, starting, altering, or stopping it so as to make it produce a desired result. This should dispose of the cliché that automation is nothing new—just more mechanization. It has its roots in mechanization, to be sure, but something new was added when electronic devices made possible the widespread application of the feedback principle. . . .

The issue which automation now raises is this: Will it alter present economic relations in such ways as to disturb these favorable conditions, or will our business system be able to translate these technological improvements fully and properly into still greater general prosperity and higher standards of living? It is evident it will change wage income both by numbers of jobs, some places up and some places down, and by wage rates upgraded here and downgraded there. It will obsolete some capital equipment and make important demands for new capital equipment. It will affect unit costs for some products, but not all; prices in some markets, not in others; profits and dividents, tax yields, and public spending. . . .

In contrast to the preponderant attitude of business executives, labor union officials have been outspokenly concerned about the economic impact of automation on the well-being of the mass of worker-consumers in the years immediately ahead. . . . "But we believe that much study is needed by all parties if the gains are to be made as large and as steady as possible and the temporary dislocations and local burdens or losses made as small as possible and most equitably shared." With this view I find myself in accord rather than with the idea that the problem will take care of itself or be disposed of automatically by the invisible hand of free enterprise. . . .

When businessmen or others say that technological progress is good *per se* and that it takes care of its own economic process, they invoke a simple logic of the free enterprise economy. The entrepreneur seeks profit by adopting a device for raising efficiency. This lowers cost. Price falls proportionately and thus broadens the market. This restores the number of jobs or even increases them and raises the level of living or real incomes. This comfortable formula presupposes a state of complete and perfect competition in a quite simple economic environment with great mobility of labor, both geographical and occupational. *But these are not the conditions of today's industrial society, with large corporations and administered prices; with large unions and complicated term contracts covering wages, working conditions, and "security"; with complex tax structures, credit systems, and extensive government employment and procurement.* The smooth and beneficent assimilation of sharp and rapid technological change has to be effectuated through intelligent and even generous policies painstakingly arrived at by administrative agencies, private and public. . . . (Italics mine—T.N.V.)

Against the complacent picture presented by some witnesses at these hearings let us put the actual sequence of economic developments in postwar United States. Technology (with infant but growing automation) has been put to full use under conditions of extraordinarily high and sustained demand, public and private. Labor, viewing this unparalleled rise in productivity, has sought to capture the largest possible share in the form of successive rounds of widespread wage increases in basic rates, escalation formulas, and fringe benefits. As the unit cost of labor went up, management sought to maintain or improve its earning position by raising prices and/or by introducing labor-saving machines and administration. The first solution of management's problem—that is, price raising—has been facilitated by our elastic monetary system, and we are now drifting along on a Sybaritic course of mild inflation as a way of life. The second solution of management's problem of meeting labor's wage demands has accelerated piecemeal mechanization, yesterday's infant "scientific management," today's adolescent automation. [And still there are some who say the class struggle has disappeared!] . . .

I strongly suspect that we have already built up at many points a productive capacity in excess of the absorptive capacity of the forthcoming market under city and country income patterns that have been provided, and employment patterns that will result from this automated operation. We are told on impressive authority that we have not been making adequate capital provision for re-equipping industry in step with the progress of technology. This is probably true if it means making full application of electronic devices and univac controls generally throughout our industrial plant. But we have not yet demonstrated our ability to adjust the actual market of 1956-1957, *etc.*, to the productivity of the production lines we have already "modernized." *They have not yet come to full production, but as they do we see incipient unemployment appearing.* Since that, along with slight credit tightening, will tend in some degree to restrict the market appetite, *it seems likely that next year will see a still further enlarged output somewhat out of balance with this reduced demand.* Suggestions have been made that balance could be restored by lowering prices or by cutting the work week. Both processes take time and present their own difficulties. Meanwhile, the current trend is toward higher prices reflecting wage advances already negotiated. . . . (My Italics—T.N.V.)

In the course of these hearings various members of the committee and its staff have raised the question whether legislation should be recommended to deal with the problems created by so-called automation. The answer, I think, is an unqualified NO. To curb or redirect the process of scientific discovery and engineering application and the adaptations of businessmen and consumers to these changes would be utterly repugnant to the system of free enterprise and individual choice that have made our country great. None the less, every time the Congress passes a money bill, every time it revises our tax structure, every time it passes a regulatory measure for price maintenance (alias "fair trade"), farm price supports (alias "parity"), or stockpiling of copper, rubber, wool, or silver it is giving punch-card or tape instructions to some part of the continuous flow mechanism of our economy. Public policy on all these matters should be framed in the light of the fullest possible understanding of the integrated character of the price-income structure and behavior of our economy, with an eye single to promoting "maximum production, employment, and purchasing power" for the whole people, not to serve the immediate interest of any special group. . . .

But in a free enterprise system human judgment is given play at most of the important points of interrelationship. Unless the responsible executives seek to integrate their operations to the prosperity of the whole economy and use the full apparatus available for gathering and processing the data relevant to policy determination our economic process will disintegrate into wasteful struggles for individual or group short-run advantage. Much of the potential benefit of technological progress (of which automation is one particular expression) may be lost through failure to make our economic structure and practices equally scientific.

It is not necessary to belabor the point. There are sharp differences of opinion within the bourgeoisie itself on the outlook for 1956. . . .

Perhaps the proper way to put it is that there is a form of *malaise* penetrating almost every sector of society.

If the business cycle has been eliminated, or if severe depressions are a thing of the past, relegated to the history books, one may logically ask, why does this feeling of *malaise* persist? . . .

Is this merely a psychological hangover from the past history of capitalism or is there a realistic danger that depressions are still possible? . . .

DOES THIS MEAN THAT a large-scale depression in 1956 is a realistic possibility? Obviously not. There have been certain fundamental changes in the nature and functioning of capitalism, two of which must be singled out for comment at this time. One of them has to do with the so-called built-in stabilizers, unemployment insurance, *etc.*, constantly referred to by the advocates of the "permanent peace and prosperity" school. These are real and they do help to introduce an *element* of a sort of planning, which certainly prevents any rapid downward tobogganing of the various economic indexes. As unemployment develops, for example, it does not have precisely the same cumulative depressing effect on the markets for food, clothing and other basic economic necessities as formerly. The ability to manipulate tax rates likewise is a stabilizing element which should not be minimized. Since the recent boom has to a large extent been supported by the phenomenal accumulation of capital in the form of vast expansion in plant and equipment, it is not too much to say that the new tax law, with its new provisions for rapid depreciation, has played a great role in encouraging accumulation of capital.

Business borrowing has increased substantially, causing the government to raise the Federal Reserve discount rate to 2½ per cent, a 20-year high. Interest rates in general have been rising. Bank loans increased about $3 billion during 1955, an increase of 16 per cent above the 1954 figure.

One of the interesting aspects of the boom in accumulation of capital is that it has largely been financed out of profits and surplus values accumulated in past periods. As The New York *Times* of January 8, 1956, puts it:

A detailed breakdown of long-term corporate financing in 1955 shows another striking phenomenon. Despite the sharp rise in business activity, external financing—raising funds from outside sources—did not increase. It ran at about $6,000,000,000, the same or a slightly higher rate than in 1954.

It should not be forgotton, in passing, that the need for financing in 1955 was great indeed. Companies spent more than $24,000,000,000 on plant and equipment, some $2,000,000,000 more than in 1954.

So where did business get the needed funds? The bulk by far, came from its own inner resources—earnings and depreciation allowances.

Retained earnings in the first half of last year amounted to $4,700,000,000. On that basis, for the year as a whole they totaled well over $9,000,000,000. When the final figures are toted up, that will probably set a new high record.

And take depreciation allowances, a steadily increasing factor in meeting capital requirements. Last year they topped $14,500,000000, a jump of more than $1,500,000,000 above the 1954 level.

Depreciation has bulked ever larger in corporate financial plans for several reasons. For one thing, the pressure of competition has forced constant additions to plant and equipment. Gross depreciable capital assets of non-financial corporations have soared to an astronomical $302,000,000,000. *The high volume of new expenditures in recent years has meant that, after allowance for write-offs on worn-out and obsolete facilities, gross assets have risen at an annual rate of $20,000,000,000.*

Under a "straight-line" depreciation, this increase in assets would boost depreciation allowances by more than $750,000,000 a year. *The actual increase, however, has been substantially greater.* From 1950 through 1954 and into 1955, for instance, the government's fast amortization program allowed thousands of defense-supporting companies to write off their depreciation in five years. *Facilities valued at more than $30,000,-000,000 were granted this rapid write-off privilege.*

The tax law of 1954 allowed all businesses to liberalize the basis on which they might depreciate capital assets acquired after January of that year. Previously, the straight-line method had required allowances to be spread evenly over the normal life of the asset; that might be twenty years or so. (Italics mine—T.N.V.)

There can be little doubt that the tax swindle law of 1954, the major accomplishment of the Eisenhower Administration, has contributed in no small way to the recent boom. The acceleration of the consumption of capital, however, does not in the long run eliminate the business cycle. If anything, it tends to aggravate the business cycle, for one must never forget that the basic law of motion of capitalist economy is Marx's general law of capitalist accumulation: the greater the increase in capital accumulation, the greater the increase in the industrial reserve army.

We have analyzed for some years now, how the Permanent War Economy has tended to offset and to transform Marx's general law of capitalist accumulation into one which reflects itself primarily in a relative decline in the standard of living of the working class. This, however, does not mean that the capitalist economy is either crisis-free or unemployment-free.

What these trends do, of course, is merely to reinforce a fundamental capitalist trend toward increasing monopoly. As Marx has pointed out, capitalism constantly strives in the direction of reaching the ultimate goal of one monopoly capitalist, but never, of course, quite reaches that exalted state of affairs.

In this connection it is interesting to note that now that the Democrats are in control of the committees of the Congress, the trend toward monopoly is receiving more publicity than previously. In a report published in The New York *Times* of December 27, 1955, we find that the sub-committee of the House Judiciary Committee investigating the question of monopoly —a committee headed by Representative Celler—agreed unanimously that "mergers were reaching a record for 25 years." The Democrats, of course, blame the Republicans for this development, and the Republicans refuse to accept this responsibility.

According to this report, since January, 1951, more than 3,000 companies in manufacturing, mining, trade and services have "disappeared in the swelling merger tide."

It is true, of course, that the current wave of mergers is on an exceedingly large scale, and that it already has had the effect of confining the fantastic profits of the past few years to the largest corporations.

We must remember, however, in any analysis of the economy that these developments are taking place under a new stage of capitalism, one which we have described as the Permanent War Economy.

THE MAGNITUDE of this third sector of the economy, *i.e.*, outlays for the means of destruction as contrasted with outlays for the means of production or outlays for the means of consumption, is dramatically illustrated by a recent report of the Department of Defense, entitled "Real and Personal Property as of December 31, 1954." We find that as of this date "the aggregate value of properties and inventories included in this report amounts to $123.9 billion for the Department of Defense." This grand total is comprised of $34,082,000,000 for the Department of the Army: $56,428,000,000 for the Department of the Navy (including the Marine Corps): and $33,356,000,000 for the Department of the Air Force.

Major equipment in use for the entire armed forces totals $18,539,000,000, over 60 per cent of which belongs to the Navy. Equipment and supplies in the supply system account for a slightly larger figure, exceeding $50 billion, and more than $21 billion is in real property inventories, with almost $3 billion in machine tool inventories.

As The New York *Times* comments editorially on this report in its issue of October 31, 1955: "An inventory of our national defense system brings up the astonishing figure of $124 billion as the current level of our military assets. This, of course, is still not the total figure. It does not include the atomic energy establishments, nor by any means all of the military materials now in use."

It is, however, a staggering figure and the question logically arises, suppose that the Permanent War Economy did not exist and that instead of $124 billion of real and personal property belonging to the Department of Defense, the figure were only 10 per cent of this amount, what then? So far as the business cycle is concerned, the postwar prosperity would have ended quite some time ago.

It is worth trying to get some perspective on the extent of the military establishment and the nature of the investment that comprises the third sector of the economy, outlays for the means of destruction.

We find, for example, the extent of the acreage controlled is vast. To quote the report: "The Department of Defense through the three military departments controlled a total of 29.4 million acres of land throughout the world on 1 January, 1955. This included land owned, leased, used on temporary permit, and various occupancy rights."

In the United States alone, the acreage controlled totaled 24,172,739 acres, costing the government over $17.5 billion and representing about 37,800 square miles, equivalent to 1.3 per cent of total land area in continental United States.

The almost $3 billion inventory of machine tools, which admittedly is far from a complete tally, represents 2,494,363 metal cutting tools and 388,768 metal forming tools. If the military establishments had ordered only, say, 10 per cent of this quantity, what would be the situation in the machine tool industries today? Much the same question can be asked with reference to the more than $50 billion in inventories in the supply system throughout the entire armed forces.

The size and extent of the military establishment of American capitalist imperialism is so vast that it is difficult to appreciate its precise economic and political weight. The virtual interlocking directorate that has been established between the leaders of big business and the leaders of the military establishment is, however, a fact. It could not exist without the development of the Permanent War Economy and its mere existence and continuation have caused a qualitative change in the nature and functioning of the business cycle.

Of course, the direct investment in the establishments of the Department of Defense is not the sole measure of the importance of war outlays in the total economy. To this must be added the expenditures that are made for foreign aid, both military assistance and economic and technical assistance.

In a very interesting article in The New York *Times* of December 1, 1955, James Reston analyzes the dispute that has taken place between the advocates of a flexible and limited program and the advocates of a permanent commitment to this type of program.

As Reston puts it, the "Young Turks" (represented by such stalwart Eisenhower Republicans as Stassen, Nelson Rockefeller and Nixon): "are enthusiastic about the foreign aid program, want it to be larger, think it is a good thing in itself, good for the United States, and *good for the development of a healthy world economy, which helps the United States.*" (My italics—T.N.V.)

In the course of this article Reston supplies some convenient summary figures on the expenditures for foreign aid, as follows:

EXPENDITURES FOR FOREIGN AID
(in millions of dollars)

Fiscal Year	*Military Assistance*	*Economic and Technical Assistance*	*Total*
1950	$ 51.5	$ 3,437.2	$ 3,488.7
1951	933.6	2,802.2	3,735.8
1952	2,384.4	2,147.8	4,532.2
1953	3,956.1	1,766.6	5,722.7
1954	3,627.1	1,246.9	4,874.0
1955	2,292.6	1,973.1	4,265.7
1956 (projected)	2,585.8	1,801.4	4,387.2
Total	$15,831.1	$15,175.2	$31,006.3

It will be seen that over $31 billion will have been spent for this purpose in a seven-year period. Again, we are dealing with a type of economic outlay which was unknown before the advent of the Permanent War Economy and one which is quantitatively not insignificant—either in its economic or political impact.

THE ESTABLISHMENT OF PRODUCTION of means of destruction as a significant sector of the economy, both quantitatively and qualitatively, has necessarily altered many of the fundamental laws of motion of capitalism. It has not, however, transformed capitalism into a system capable of producing permanent peace and prosperity. It has not eliminated the class struggle either nationally or internationally. It has not eliminated the need for a socialist organization of society. On the contrary.

Despite the inflationary boom that has taken place during the past 18 months or so—let us admit that its size and extent have amazed us at least as much as it has amazed the leaders of the bourgeoisie—the process of atrophy that we have described repeatedly during the past several years remains at work.

Government intervention in its manifold forms may possibly reduce what otherwise would perhaps be a level of unemployment of 10 million to one of 5 million (in a period of recession under the Permanent War Economy, which is in the process of developing) but it is entirely possible that the political impact of an unemployment level of five million in an economy so highly geared as the present, may have far more serious consequences for the class struggle than 10 million did in the 1930s.

To put the matter another way, when the ratio of war outlays to total production declines, we find that the hypodermic effect of these injections into the economy is considerably more weakened than the mere recital of the figures would lend one to believe. It is, to use the metaphor of the drug addict, a case where a constantly increasing dosage is required to achieve the same effect, so that when a period arrives when the dosage is decreased the effects on the patient are startling.

To say that the recent boom has been purely a peacetime boom, without benefit of war outlays, as do many of the advocates of the "permanent peace and prosperity" school, is to fly in the face of facts. The ratio of war outlays to total production has undoubtedly declined somewhat in the last few years (the detailed computations and their analysis must await another article) but they still remain well above the 10 per cent level which we originally established as the significant dividing line.

A precarious economic equilibrium has been achieved both domestically and internationally. The extent of the precariousness is about to be revealed. Despite the very sizable production increases of the past 18 months, factory employment is still below 1953's highs, thereby revealing that the boomlets must necessarily be short-lived.

Had not the Korean war intervened, the present measures of state intervention would long ago have been revealed as inadequate to achieve any type of capitalist stabilization. The forces of production are on the verge of breaking through their capitalist integument. The development of atomic power will require socialism. That is the true measure of the profound social crisis that exists in a very real sense throughout capitalist society today. That is why this feeling of *malaise* penetrates all sections of the bourgeoisie from the most prosperous to the least. They know that this prosperity is, above all, temporary.

The precarious equilibrium of the domestic economy, in turn, rests upon an equally precarious international equilibrium. So long as this relative balance of forces is maintained between Stalinist and American imperialism, and so long as the fear of total destruction operates to restrain an immediate resort to military adventures, the precarious equilibria, both internationally and domestically, can continue. This, however, is clearly a very limited situation.

An interesting document in this connection is a study prepared for the Joint Committee on the Economic Report by the Legislative Reference Service of the Library of Congress. It is entitled, *Trends In Economic Growth, A Comparison of the Western Powers and the Soviet Bloc*, and was published in 1955.

It is not necessary to go beyond two of the important conclusions to realize that the international equilibrium is indeed temporary and precarious.

In connection with power, which after all is crucial, the report states: "Atomic power, if it were to be systematically developed by either Western Europe or the Soviet Bloc at relatively low cost, could alter the economic balance between the two areas quickly." Since both sides are feverishly straining to develop atomic power, how long will it be before one or the other succeeds in obtaining this relative advantage which would immediately upset the precarious equilibrium?

So far as the growth of the respective economies is concerned, the report states that: "In the period 1938-1953, as a whole, the national product of the United States increased about three times as rapidly as that of independent Europe, and almost twice as rapidly as that of the Soviet Union. To a substantial degree, this difference reflects the varying effects of World War II. Between 1948 and 1953 the national product of the United States grew not quite 30 per cent faster than that of independent Europe and *only two-thirds as fast as that of the Soviet Union.*" (My italics —T.N.V.) In other words, in the real postwar period the economy of the Soviet Union has been outstripping that of the United States in a ratio of 3 to 2.

No wonder the inheritors of Stalin's empire prefer a period of "competitive coexistence," for even if we assume that American output today, and the strength of America and its allies in general, is twice that of the Soviet Union, or of the Soviet Union and its allies, it would take less than 10 years—assuming that the Soviet Union maintains its relative advantage of an annual increase that exceeds that of the United States by a ratio of 3 to 2 for the Russian economy to surpass that of the United States. At the present respective rates of increase, even without the inevitable recession in the United States, it would take less than a decade for the balance of power to be radically altered.

Once the precarious international equilibrium is basically changed, then the domestic equilibrium, if it has not already been upset, will surely be destroyed.

It is entirely possible that the productivity of labor under Stalinism does not have to equal the productivity of labor under capitalism before the former has achieved military-economic supremacy over the latter. We do not, however, have to speculate about these matters. It is sufficient merely to postulate that the international equilibrium is precarious and necessarily short-lived. This, whether they admit it or not, destroys a fundamental postulate of the advocates of the "permanent peace and prosperity" school, for what they are really saying is that internationally the power blocs constituting Stalinist imperialism on the one hand, and American and allied imperialism on the other hand, can continue indefinitely their huge level of armaments.

It is true, of course, that both Stalinism and capitalism require each other in order to exist. This is one of the paradoxes and contradictions of the present world situation. While the prospects of a resolution of this cosmic paradox may not seem too bright at this time, that they should not cause any elation in the camp of the "permanent peace and prosperity" school. There is no peace. And the prosperity of American capitalism is built on quicksand, as the future will demonstrate.

NI, Winter 1955/1956

THE ECONOMIC STATE OF THE UNION

In his economic report Truman raises the question why "our economy showed strength sufficient to withstand shock of a kind which had ended earlier inflations with collapse," that is, why the United States has been able to avoid a post-war depression, at least so far. The section is interesting, since it points exactly to that aspect of the "state of the Union" which the message is written to conceal.

The reasons given by Truman immediately after raising the question can be almost brushed aside if one is seeking fundamental reasons rather than mere contributory factors; these reasons are: "affirmative national policies," "greater caution in the business community," the farm price-support program, the greater strength and resilience of "our whole financial and banking structure," the social-security set-up, and finally: "Our working groups [by which is presumably meant those sections of the population that work for a living] were better supplied with current income and accumulated savings" than in 1920.

One other one, and a rich one: "Our businessmen, having become better informed, were more prudent." This in particular is so much hogwash. The very same report, a few hundred words later under a different heading, has a word to say on the main way in which "our businessmen" showed their "prudence":

"Profits in 1948 again surpassed all previous records and were rising throughout the year. Corporate profits after taxes amounted to about 21 billion dollars, contrasted with a record level of about 18 billion dollars in 1947. With sales booming, the ratio of profits to sales was again maintained at around 5 per cent after taxes. As I pointed out a year ago, such profits are in excess of the levels needed to furnish incentives and equity funds for industrial expansion and to promote sustained economic health [undoubtedly the greatest understatement of the year—H. D.] although some businesses have not thrived nearly so well as others"—for, example, we add, the corner grocery store as compared with U. S. Steel.

This is the greater caution in the "business community," which Truman cites as a factor in preventing collapse. There is not much point in going into the others either.

WAR ECONOMY

The real and effective factor is referred to in a sideswipe in an entirely different place in the economic message. This passage reads as follows:

"Expectations of continued inflation have added to the incentive for business investment, while the price rise has acted as a brake on the demand of consumers with relatively fixed incomes. The proportion of consumer expenditures in the total national product has never been lower in any peacetime year for which statistics are available. This is not an immediate problem so long as the sum of government expenditures, and net foreign investment is still rising. It could become a critical problem as those other factors begin to turn down or even to assume a declining relative importance in a constantly growing total economy."

And so despite the long list of anti-depression factors cited by Truman, the low proportion of consumer expenditures (what you and I are able to buy) could become "critical" for the economy if the three other factors were to fall. These three other factors, one sees above, are: government expenditures, business expenditures and net foreign investment. The heart of these factors, in turn, is highlighted by a statement in the Annual Economic Report by Nourse and Keyserling, transmitted by the president together with his own message:

"Needs engendered by war and its aftermath of international tension continued during 1948 to overshadow the civil programs of the government and to **exert crucial influence throughout the economy.** It was necessary to hold back government programs urgently needed for peacetime growth and progress, while extraordinary activities to meet world responsibilities prolonged and strengthened the general forces of inflation. The enlarged expenditures for national security and foreign aid authorized in 1948 will impinge in 1949 upon a private economy still sensitive to inflationary pressures. Not only will total government spending be rising, but its impact in critical areas will be intensified."

What has shored up the economic structure has, then, not been the "prudence" and "caution" of "our businessmen"—who, as usual, are still concerned primarily with grabbing the greatest amount of profits ever recorded in the face of a situation characterized by the lowest proportion of consumer expenditures ever recorded. What has shored up the structure of American capitalism has been its increasingly large sector devoted to building an economy for war preparation as well as expenditures for past wars. If the United States has not run into economic crisis, it is because it is gearing for another and more catastrophic crisis: the third world war.

In an editorial in U. S. News & World Report, Editor David Lawrence puts the finger on this fundamental economic fact about the "state of the union." (Lawrence's biases are on the reactionary side, and his conclusions seem to be in the direction of a sort of isolationism and return to laissez-faire economy — less government in business, etc.—but the fact he points to is another matter.)

"It is obvious that armament expenditures," writes Lawrence, "have given America a false prosperity. . . . Hence the paradox that the biggest economic danger faced by America is the danger of a sudden turn to peace by Russia." And asserting that our economy is based on the present cold war, Lawrence opines that "President Truman's message is written on the assumption that American production will be supported by a continuance of the existing set of circumstances."

This last statement is not true certainly of the Nourse-Keyserling Annual Economic Report, which specifically raises the question of what to do to support prosperity outside of cold-war economy, but the important thing is that the present economic situation does have the cold war as its main prop.

Depression or war, unemployment or mass slaughter, hunger or blood, collapse of economy or collapse of peace—these are the alternatives presented by American capitalism.

LA, Jan. 17, 1949

GALBRAITH ON PROSPERITY WITHOUT WAR

Behind all the touchy questions among American political and economic issues is one of the touchiest of all: What would happen to U. S. economy and its social system if real stable peace broke out with a consequent cutback in the present war economy?

The New York *Times* had brought up a big gun to slay the dragon of doubt. Its magazine, on June 22, featured the Harvard professor of economics, government adviser, and author, J. K. Galbraith, who rushed in to prove that "We Can Prosper Without War Orders." Professor Galbraith's demonstration was greeted warmly on various sides. Max Lerner, liberal columnist, gave it an accolade. Even I. F. Stone approved its central thesis, though with some important doubt about the *political* feasibility of prosperity-without-fear.

What Professor Galbraith proves in his article is that, when it comes right down to it, we've just *got* to have prosperity-without-war because otherwise we're sunk. What he proves is that he can think of no more substantial reason.

But first, to introduce the professor's mode of thought properly, we have to note that his article is presented as a staunch polemic against "the Communist argument." He says that we should not merely "dismiss it as Communist propaganda, which, in its major inspiration, it undoubtedly is." He shows his scholarly training by the qualification "major." The *Times* copy-reader, no professor he, called it "the Communist argument" point-blank. This shows the great difference between the academician and the journalist. The academician hedges on deceit just as he hedges on everything else.

The fact is: the view that U. S. prosperity is dependent on the cold war and its war economy has been put forward, or mentioned with favorable tendency, by so many bourgeois ideologists that it is entitled to be considered a school of bourgeois thought today. Galbraith ought to be aware of at least one, his colleague at Harvard, Professor Slichter, who is no more liberal than Galbraith himself.

The latest (see the AP dispatch quoted in Labor Action June 23) were the "top government economists" who stated that one-third of U. S. business activity "now springs from the defense build-up" and that "It's now perfectly obvious that, without the defense program, we would be in a recession at the present time. The only thing holding the economy together at the present level is defense."

These men "asked not to be quoted by name"—Labor Action added, "as if there was something subversive in the information." Our comment was naive, it seems: we learn from Galbraith that to have their opinion is to follow Communist propaganda. Other economic scientists had better make sure that their researches into the question come up with the *right* answer as established by the American party line, with Galbraith as its Lysenko.

Professor Galbraith begins very correctly by distinguishing between two questions. These are: (1) Is America's economic need for rearmament the motivating force of its cold-war policies? (2) Whether it is or isn't, *can* we have prosperity without war?—Unlike some others, he does not use an easy answer to the first to pretend that the second has been dealt with too.

What he does *not* do is distinguish further between the two different questions confused under point 1. For question (1) should be subdivided into: (*a*) Is it true that "rearmament and military aid are really *inspired* by the need to prop up the American economy"? (*b*) Even if this had no decisive role in the original motivation of the program, is it—and to what degree—a force contributing to keeping it going, now that the connection has become more and more evident to more and more people, as Galbraith himself laments?

Galbraith's argument on this point is directed solely to part (*a*). We are not interested in denying it. Marxists do not believe in the devil-theory of war or the plot-theory of social causation, according to which all our evils are due to despicable capitalists plotting their dastardly deeds in secret conference.

But part (*b*) is more difficult to answer and not the same thing. It does not necessarily even imply conscious motivation. As Stone says quite truly: "Anxieties, lines of least resistance, unconscious convictions too fearful to be faced in the full daylight of the mind, affect the conduct of nations as well as men."*

But we forbear further discussion on this point because we do not want to propose an answer to the question of conscious motivation—by whom or how many—and because it is the second section of the problem which is the vital one.

Can the American economy maintain its prosperity without the cold-war?

Galbraith divides this discussion into two parts also. The approaches taken in the two parts are entirely different, as we shall see. The first deals with the danger of "a short-run or temporary slump" and the second

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* But we must mention one case in which this is faced in the full daylight of the mind. This is in the recent statement put out by the leaders of the British Trade Union Congress to justify the rearmament program: "We cannot ignore the industrial and financial difficulties involved in a sharp curtailment of armament production. Widespread unemployment is held at bay today mainly by the rising labor demands of the engineering trades [heavy industry]." If the British trade-union leaders can permit themselves this statement in a public document, what have we a right to think of our unreconstructed American capitalists? The former are right-wing Laborites, to be sure, and above all enemies of "Bevanism," but the latter are right-wing *anti*-laborites.

with "the factors shaping the long-run strength of our economy."

For the first, the "short-run" danger, he relies on listing new factors added to the economy since the crisis of the '30s. These are:

(1) "By contrast [with the period 1929-1932], farmers are now exceedingly solvent."—But if the problem is the possibility of a descent into crisis from the present level of prosperity, the contrast with 1929-32 is irrelevant. That was after the crisis had already broken out, and it did not break out because of *in*solvency among farmers. This bears also on Galbraith's reference to the role of "government support prices" in checking "any drop in farm prices and farm incomes." More important, this aim was also that of the New Deal depression palliatives set up by the AAA; the big over-all fact about which Galbraith says nothing is that none of the New Deal measures, from plowing-under to funny-money, ever succeeded in lifting the country out of the crisis. This was not accomplished until World War II began to transform the economy. [For a documented summary, see "From the New Deal to the War Deal" in LABOR ACTION of May 5 last.]

(2) "the unions would now be able, as they were not 20 years ago, to prevent competitive wage cuts."—Presumably because they are stronger? And what will the capitalists be doing meanwhile: cheerfully maintaining prosperity wages while their business falls off? A prediction of fiercer class struggle would be legitimate but this is the last thing in Galbraith's mind. A capitalist class which has put over the Taft-Hartley Act on these stronger unions (which got the Wagner Act when they were "weaker"), and which is now seriously talking of outlawing nation-wide collective bargaining, hardly fits the professor's roseate picture.—More fundamentally, however, maintenance of high wages is no cure for capitalist crisis, except for those who accept the "under-consumptionist" fallacy in its crudest form. The crisis is a crisis of PROFITABILITY for the capitalists, who will not produce otherwise. Maintenance of high wages reduces profitability as much, from one direction, as does a fall in people's purchasing power from the other direction. This is precisely the classic contradiction of the private-profit system. The period leading up to 1929 was a period of relatively high wages, remember!

(3) A series of other factors thrown in by Galbraith are legacies of the New Deal measures, which did not in their time check the ravages of the crisis then and could be only palliatives in case of a peace-inspired crisis now. They are such things as unemployment compensation, deposit insurance, broader income taxes, housing and public works programs, etc. On the tax angle Galbraith is—I am sure, quite unintentionally—humorous. The significance of the broader income taxes is that, as incomes fall in a slump, tax liability would fall also, "thus releasing income for private spending." Further to release income: "In the event of a sharp cutback in military spending, it would require no very sophisticated economic advice to persuade Congress to enact a whacking reduction in taxes." At this point he might be suspected of drollery if not for the context. In any case what he certainly seems to be unaware of is the contradiction he is getting himself into: on the one hand, he points to the beneficent effects of tax reduction, and on the other he proposes programs which would keep government expenditures up, even if for peaceful projects rather than war. His very course of argumentation acts out the inherent contradiction of capitalism.

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But to do Galbraith justice, after this listing of factors we find that not even he claims that he has presented reason to answer Yes to the question, "Can the U. S. continue to find a peaceable outlet, year after year and decade after decade, for its very considerable productive energies?" We find out more concretely that all he was doing, in his own view, was discussing "the IMMEDIATE consequences" (our emphasis) of a shift from war production. For this, indeed, his "factors" would have meaning. But no one particularly claims that a crash must inevitably follow hot on the heels of a cutback in war production. Such factors as he cites could have something to say on the tempo and forms of a slide into depression. But this is not what he set out to prove. And above all this is not what justifies his categorical assurance that "there is no chance of another disaster like that of 1929"!

Therefore, for his last section Galbraith girds his loins and finally undertakes The Question itself.

At this pont everything changes; the whole method of the preceding sections gets unceremoniously dumped. What is it that gets dumped? Why, *economics!* Galbraith is nothing if not forthright in the confession:

"Here the answer depends less on economics and more on a broad assessment of social needs."

In point of fact, we find that the answer has nothing to do with economics or any other subject on which Galbraith is a professorial authority. The article becomes purely hortatory—which is a good academic way of saying that he proceeds to soap-box agitation as a substitute for any scientific analysis of why capitalism can be expected to do today what it couldn't do a couple of decades ago.

In brief, the professor proceeds to point out that there are all kinds of very worthwhile social projects which could absorb the moneys now spent on the cold war, thus performing the same economic role; and to express his positive assurance, backed by his own word as a gentleman and a scholar, that they will be carried out—anything else is unthinkable. Don't the American people need housing? schools? roads? hospitals? dams? land-reclaiming? Who can deny this? Not only that: the peoples of the underdeveloped countries will still need our millions. The moral case is strong; still stronger is the need to avoid crisis through this philanthropic outlet. . . .

What Professor Galbraith, in his overflowing kindness, is envisioning is nothing less than the conversion of American capitalism into a great big eleemosynary institution at home and a CARE organization abroad. Profit be damned; can we even mention such a mercenary subject in the presence of such a vision? Can we ask him to point to a little morsel of evidence that the rulers of this society, who have to be re-educated by their "internationalists" even to see the necessity of sacrificing a bit just to defend their necks from the Russian imperialist rival, are capable of shelling out similar billions for Galbraith's socially necessary projects?

In any case, we have already made the point that the crux is not any debate over the possibility of winning over the NAM to the Buchmanites or the Salvation Army, or whether such a mass transmogrification would be easier or harder than recruiting them to the Independent Socialist League. In his "hard-headed" sentences Galbraith seems to be saying that, morality apart, the capitalists will have to go along because the alternative is the disaster of depression. But depression is a disaster for them precisely because it cuts deep into their profits. It is hardly more appealing, from their point of view, to give up the same millions voluntarily. Besides, capitalist crisis is not an equally disastrous occurrence for *all* capitalists, nor is it quite as black-looking economically when another alternative is the intensified exploitation of the masses made possible by fascism. . . .

Being totally unconcerned with such questions, Galbraith polemizes in this section against what must be the real difficulty—the theory, which he lambastes, that the American people already have everything anyone wants anyway. Here he becomes powerful, overwhelming all opposition by the cogency of his argument; nothing stands before the sweep of his pen as he lays low the mighty objection:

"Families with a present income of $6800—or twice the average—have not the slightest difficulty in spending their money. So easily acquired is the amiable art of spending money that the same is true, though with some increase in saving, of those with three or four times as much."

Nobody's going to give him *that* argument again.

Thus Professor Galbraith's proof of the possibility of peace-with-prosperity under capitalism.

LA, July 7, 1952

SUMNER SLICHTER & SYLVIA PORTER

One of the frankest and most important statements on the present state of the American economy was made on October 25 [1949] by one of the leading economists in the country—Prof. Sumner H. Slichter of Harvard, a high official of the Committee for Economic Development. Dr. Slichter was speaking at the dinner of the annual convention of the commercial finance industry:

> "From a narrow economic standpoint, the cold war in which the U.S. and Russia are adversaries is a good thing, Dr. Slichter said. In effect, he said, it has proved a boon to the capitalistic system which the Communists are trying to scuttle."—*N. Y. Times, Oct. 26.*

Slichter said, among other things:

> "It [the cold war] increases the demand for goods, helps sustain a high level of employment, accelerates technological progress, and thus helps the country raise its standard of living.
>
> "In the absence of the cold war, the demand for goods by the government would be many billions of dollars less than it is now and the expenditures of both industry and government on technological research would be hundreds of millions less than they are now.
>
> "So we may thank the Russians for helping make capitalism in the United States work better than ever."

And he declared that a real bust—a really severe depression in the U.S.—is "difficult to conceive" as long as the benefits of the cold war are with us.

ooo

[The dilemma of the liberals] is sounded in a cry of agony by financial columnist Sylvia F. Porter two days after Slichter's speech. Miss Porter is presumably a social scientist, but her anti-Slichter column is, for half its length, a glandular explosion.

"I'm not stunned," she writes, "I'm disgusted... it's false, it's harmful, it's damnable." "Insidiously dangerous!" she says.

Then, pulling herself together, she gives five reasons why a "peace settlement with Russia" and the end of the cold war would help American economy. They are: (1) Demand for our goods from the Iron Curtain domain would pour in. (2) Billions of U.S. capital would then be willing to risk investment abroad. (3) We could spend billions on domestic economic improvement, schools, cancer research, etc. instead of on arms. (4) We could cut taxes. (5) We could turn technological progress toward peacetime uses.

Highly moral liberal wishes, however, mix poorly with the realities of the social system which Miss Porter supports no less than Slichter. Her liberal morals extend only to condemning the *consequences* of capitalism. Is it still possible for an enlightened economist, especially a liberal one, to fail to ask why the above five factors failed to prevent a crash twenty years ago?

It took the Second World War to restore prosperity. All that Slichter says is that the Third World War is even more effective, in advance.

Miss Porter challenges wrathfully: "Production for destruction, billions spent for goods that are useless except for killing. Since when is that 'a good thing'? Economically as well as socially, morally, politically?"

As a New Dealer, Miss Porter ought to know "since when" the economic category of destruction has been known as a good thing. The AAA plowing-under of pigs and cotton is a small chip off the same block. Socially it was fantastic. Economically as Porter could explain, it made sense—for a social system which produces crises in the midst of abundance...

LA, Nov. 7, 1949

[*Less than two years later, the same Sylvia Porter wrote a triumphant column about the wonders of the American "garrison economy" which was reprinted in* Labor Action *as follows:*]

"Once again, the United States is a military nation.

"With almost incredible ease, almost unbelievable speed, we have shifted from a civilian state to a semi-garrison economy....

"But already it has happened. For:

"We are now spending well over $500 millions a week on remobilization and the armed forces.

"And soon, our defense spending will skyrocket to $1 billion a week.

"In the year since Korea, business output for the armed forces has climbed 100 per cent.

"In the year ahead, production for defense will double again and the military then will be absorbing a full 20 per cent of everything America turns out.

"Half of all our steel production is being channeled directly to defense or to activities closely allied with defense.

"The military forces are taking as much as 60 to 90 per cent of the output of such strategic metals as copper and nickel.

"Many firms actually are selling all or nearly all they produce to the military; from coast to coast, companies are reporting major changeovers to production of munitions....

"Thus has the face of America been altered—as defense has become our land's biggest single business.

"Thus have we changed between June 1950 and June 1951....

"Cease-fire, truce or what-have-you, we will continue building our defenses and maintaining them.

"Barring the miracle of real peace, we shall not soon again--if ever--slip back into our pre-Korean weakness, when altogether we were spending less than $15 billions a year on American defense.

"So now we are a peculiar hybrid--a semi-garrison economy, a military-plus-a-civilian nation.

"Only a land capable of such stupendous production as America could manage it so quickly, so smoothly.

"But we have done it. Already."

--N. Y. Post, June 19, 1951
Reprinted in LA, July 9, 1951.

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[*In another column which appeared in the N. Y. Post on January 3, 1956, Sylvia Porter gave another testimonial to the war economy:*]

"To our civilization as the new year 1956 starts to unfold, we are adding two massively significant things: a PERMANENT munitions industry; a PERMANENT foreign aid program. ...

"Throughout our history, it has been American tradition to be either at war or at peace. Our budgets have been war budgets or peace budgets... Now begins the 11th year since the end of World War II. And now it is hardly a secret that in his key messages, the president will ask Congress to approve a defense budget of over $35 billion--a budget that in any other era would reflect a full-scale war.

"What is more, the vital point is not the size of the budget. The vital point is that this is the level at which our annual spending for defense is slated to level off and become permanent.

"Our munitions factories no longer reconvert to peacetime goods; they remain munitions factories. And the European approach which we have despised for so long we have now embraced."

LA, January 9, 1956

THE BUREAUCRATIC MILITARIZATION OF CAPITALISM

Following is an excerpt from the 1949 resolution of the Independent Socialist League entitled "Capitalism, Stalinism, and the Struggle for the World," taken from Part 1, "Changes in Capitalist Imperialism."

(1) Under the impact of the First World War, Karl Kautsky, the leading theoretician of social-democratic reformism, elaborated his theory of "ultra-imperialism," according to which the organic growth and internationalization of capitalist monopoly would lead to a single world-wide trust and international peace.

We have seen, in fact, that a kind of "super-imperialism" has indeed emerged from the advance of monopoly—two super-imperialist powers, each imposing its own imperialist sway over other modern and equally imperialist states.

But far from making for a more peaceful cohabitation of national states, the world-racking imperialist rivalry and the increased shift of all national economies for war and destruction has been brought to a pitch never before seen. For the first time, the life of *every* important country in the world, including the United States, is being organized more and more on the basis of a permanent war economy and a permanent militarization of society.

(2) In economic terms, this means the rapid growth in the economic structure of capitalism of a third great department of production alongside the production of the *means of production* and the production of the *means of consumption*. This newly significant sector of the economy is the production of the *means of destruction*—production of goods which do not re-enter either into the process of reproduction or into (what is at bottom part of the same process) the production of labor power.

While the production of war goods and the devotion of means of consumption to the production of "soldier power" has always been a part of capitalist economy (where its economic effects have been similar to those of luxury goods consumed by the capitalist class), the rise of this production to the immense role it now plays has been accompanied by far-reaching changes.

(3) The link between the economic and political changes thus produced is the fact that the *market* for this third department of capitalist production is the state. The rise to dominance in the economy of this type of production effects, therefore, the partial negation of the blindly-operating market as the regulator of capitalist economy and its replacement by the partial planning of the state bureaucracy.

In proportion as production for war purposes becomes the accepted and determining end of economic activity, the role of the bureaucracy ceases to be limited to that of a political superstructure and tends to become an integral part of the economy itself. This bureaucratization of economy in the capitalist countries leads to the growth of the state bureaucracy in size, in the importance of its role for the regulation of the economy, and in its relative independence from the direct control of the captialist class.

(4) In this stage of the dominance of war economy and the bureaucratization of capitalism, the role played by state intervention ("statification of the economy") changes accordingly. From its role in the early period of capitalism of forcing development (especially in the case of latercomers like German or Japanese capitalism), and from its role in the middle period of capitalism of "socializing the losses" of particularly sick or weak individual industries, *its dominant role today is that of building or maintaining the war potential of the economy in anticipation of future conflict or planning war production in actual conflict.*

This new character of statification is founded upon the new dominance of war economy and the new role of the state bureaucracy, tending to substitute state-organized planning for the blind operation of the market, largely at the expense of petty capitalism but also partly at the expense of limiting or infringing upon the political and even social power of the bourgeoisie (as in the case of the fascist war economies).

(5) This development has not advanced equally in all capitalist countries or all spheres of capitalist economy, being especially marked in those capitalisms devastated or bled white in the war (like England and France) and less marked in proportion to the wealth of the country (as in the United States).

Nationalization in England has already gone beyond the limits expected by Marxists (including Lenin) in the days when British capitalism still appeared as a going concern, albeit in a state of historical decline, in particular still able to feed on the wealth produced by its colonial slaves. If nationalization in England does not go further (say, to steel) in the next period, this will not be because such a step is excluded by the nature of forces operating in the degeneration of British capitalism. While a nominally socialist government staffed by the Labor Party is the vehicle through which these changes are taking place, the bourgeoisie has so far put up a comparatively weak resistance and the Conservative opposition has been compelled to promise that its resumption of power might slow up or temporarily halt the trend but would not turn it all the way backward.

Likewise in France, since the end of the Second World War, nationalization has played a role which, before the war, would have been scouted as impossible of realization under capitalism by all Marxists.

(6) The all-pervading degeneration of capitalism marked by the new phenomena outlined above is superimposed upon its decades-long decline, just as the new stage of the bureaucratic militarization of capitalism does not negate but is superimposed upon its stage of imperialism.

It must be emphasized that while, both in economic structure and in political consequence, a new stage is marked, it is yet a new stage *of capitalism*, indeed of capitalist imperialism. The fundamental social reason for the emergence of this new stage is the delay of the socialist revolution and working-class intervention in cutting short the agony of capitalist decline in favor of a new social order based on workers' power.

(7) Out of this partial self-negation of the capitalist world, however, the new traits rising to prominence have more and more in common with the rival social order whose power has mounted parallel with the degeneration of capitalism: Russian bureaucratic collectivism. Thus already in 1939, discussing the bracketing of the New Deal, German fascism and Russian Stalinism under one head, Trotsky commented that "all these regimes undoubtedly possess common traits, which in the last analysis are determined by the collectivist tendencies of modern economy," and that "the tendencies of collectivization assume, as the result of the political prostration of the working class, the form of 'bureaucratic collectivization.' The phenomenon itself is incontestable. But where are the limits, and what is its historical weight?"

While in 1939 Trotsky expected this inner tendency of capitalism toward "bureaucratic collectivization" to be aborted by post-war revolution and to be therefore only of academic interest, the prolongation of capitalist degeneration and the continued "political prostration of the working class" more and more brings it to the fore and lends it increasing historic weight. The limits of this tendency are set by the struggle of the working class for power and, even aside from this, by the fact that the complete negation of capitalism short of working-class revolution requires the intervention of some other revolutionary social force which is visible in the Western capitalist countries only in broad outline.

8) This capitalist tendency toward "bureaucratic collectivization," therefore, by no means erases the distinction and antagonism between the rival social systems of capitalist America and bureaucratic-collectivist Russia, but bears on the *direction* of capitalist degeneration—given working-class failure to fight the trends created.

Capitalism itself is doomed. In the looming war between Western imperialism and Stalinist imperialism, the victory of the former can be achieved by it only by intensifying precisely those tendencies which push it in the direction of its enemy. War economy—bureaucratization—bureaucratic planning—controls—regimentation — declining standard of living in the midst of "full employment" for war production—these are the social prerequisites for gearing capitalism toward victory in the threatened war. It is irresponsible and utopian to believe that the victory of American imperialism in this war can be ensured at any cost lower than the acceleration of its own descent into that modern-type barbarism upon which it wars.

The fight against the inevitable assault of today's capitalism on the most firmly entrenched economic gains and democratic rights of the people is part and parcel of the socialist struggle against the war itself and its preparation. This is the most fundamental historical basis for our slogan "Neither Washington nor Moscow!" and the refusal of the Marxists to make the slightest compromise with social-patriotic notions of supporting the capitalist side of a war in order to gain a "breathing spell" from the threat of Stalinist totalitarianism.

NI, April 1949

THE NIGHTFALL OF CAPITALISM

The rise of imperialism to unparalleled proportions further deepens the crisis of capitalism by precipitating wars whose preparation and prosecution introduce the most far-reaching changes in the economy of capitalism itself, to say nothing of political changes.

The *Communist Manifesto* , and all Marxist writings following it, emphasized that the conditions of bourgeois property fetter the development of the productive forces of society, they are "too narrow to comprise the wealth created by them." Yet not only did capitalism experience a tremendous development of the productive forces for more than half a century following the appearance of the *Manifesto*, representing the period of the greatest expansion of capitalism, but even if the opening of the final crisis of capitalism is dated from the beginning of the First World War the last quarter of a century or more has seen what appears to be a still further growth of the productive forces. How is all this to be reconciled?

Theoretical economics recognizes two great divisions, the production of the means of production and the production of the means of consumption. Modern warfare, as we have seen in our own time, makes stupendous demands on the economy. "Germany would put about five million armed men into the field, or ten per cent of the population, the others about four to five per cent, Russia relatively less," Engels wrote to Sorge in 1888, when a European war seemed imminent. "But there would be from ten to fifteen million combatants. I should like to see how they are to be fed; it would be a devastation like the Thirty Years' War." Engels, alive during the Second World War, would have had the opportunity to see how many, many more than fifteen million combatants were fed. The stupendous demands on the economy were met, not only with regard to food, but to weapons of such a kind and in such quantities as Engels or any of his contempories would hardly dare dream of.

What happens under such circumstances to the two great productive divisions of capitalism?

In *The German Ideology*, which in spite of Mehring's severe strictures, is invaluable for the fullest understanding of the *Manifesto*, which it preceded by a couple of years, Marx writes: "These productive forces receive only a one-sided development under private property, become for the most part destructive forces and a mass of such forces cannot even be utilized in private property." And further: "In the development of the productive forces a stage is reached in which forces of production and means of distribution are generated which, under the existing relations, can only inflict harm, which are not longer forces of production, but forces of destruction (machinery and money)..." And still further: "... the productive forces and the forms of distribution have developed so far that they have become, under the rule of private property, destructive forces..." The *Manifesto* itself points out that the bourgeoisie overcomes its crises "by enforced destruction of a mass of productive forces."

Imperialist war, on the scale on which it is now fought, gives a new and more terrible significance—a double significance—to these words. Capitalism develops the productive forces only by turning more and more of them into destructive forces. To an extent which the authors of the *Manifesto* could not possibly have imagined, capitalism has added *the production of the means of destruction* to the two great divisions of production set forth by Marx in his later *Capital*.

Leaving aside for the moment all emotional considerations and moral judgments, the production of the means of destruction must first be considered from the strictly economic standpoint. In a study written by Bukharin program mean the revival of the huge aviation industry which was allowed to collapse at the end of the war; it means the sustainment of the weakened machine-tool and precision instruments industries; it means the reallocation of steel and other products, already in short supply, to war instead of civilian production. There is little reason to believe that anything but an increase and extension of the American armaments program is to be looked for in the period ahead.

This trend is recognized in all serious economic and political circles. It is the reason for the notable shift of traders and investors from consumer goods to capital goods. A heavy armaments program—to say nothing of war itself—gives the heavy or capital-goods industries all the assurances of material supplies and gives no assurances of such supplies to the consumer-goods industries.

The shift to the capital goods industries is further stimulated by the consideration that continued inflation will produce far greater "buyers' resistance" from the individual consumer than from the corporate consumer whose market and income is far more extensive. The shift is stimulated, finally and paradoxically, by the consideration that the boom usually declines first in the consumer goods industries, in the "soft lines" which feel the recession sooner than the heavier industries.

The principal factors in operation therefore dictate the conclusion that the United States may very well, in fact almost certainly will, experience radical dislocations, especially in the light and auxiliary industries, and even an economic recession, at the end of another year or two. However, there is no serious reason to look forward, within any such period, to the classical capitalist crisis of overproduction which, in the past, periodically and repeatedly maimed and prostrated the basic industries of the country, bringing in its train a multimillioned army of unemployed.

A crisis based upon a narrowing market in consumer goods at a time of a sustained or widening market in capital goods is, if not inconceivable, then very improbable. At the same time, the very way in which the crisis is to be averted or "surmounted," constitutes the most crushing indictment of decadent capitalism. The traditional economic collapse can now be averted only by threatening all civilization with collapse.

In reality, it is not averted at all. It is merely transformed into the most comprehensive, profound, convulsing and agonizing crisis the human race has ever known—modern total war. The change in the character and form of the crisis, corresponding to the change in the economic structure of capitalism and the social decay it entails, is a question of cardinal importance.

The continued shift from a "normal" economy to a war or war-preparation economy is becoming more and more the normal state of capitalism. It substitutes for the sufferings and contradictions of the traditional crisis a number of new and different sufferings and contradictions. It assures a high level of employment, but the steady income of the workers brings about not a real but a pseudo-prosperity.

Concentration on armaments and capital goods industries, which have priority of allocation of raw materials, machinery, labor forces and government subsidy, occurs at the expense of the consumer goods industries. Shortage of the latter's products, in the face of widespread demand, maintains a steady inflationary pressure to raise prices, accompanied by the scourge of black-market prices — the deadly combination against the standard of living of the masses.

Government budgets, swollen by armament expenditures, require a tremendous tax burden which always weighs down disproportionately upon the living standards of the people; while the armaments makers and monopolists enjoy the special protection of the government which guarantees them a profitable market for their products, and are the principal profiteers from the protracted inflation.

Still early in the shift to the armaments economy, the United States now has a national budget of $40,000,000,000. The bulk of this unparalleled budget is assigned to war costs, past, present and future. This budget represents a tax of about 20 per cent upon the total present national production of the country—and if the state and municipal budgets are added, the tax on the national income runs to about 25 per cent.

To run the governmental affairs of the wealthiest and most powerful of the decaying capitalist nations now requires two out of every eight hours of the work of every individual in the country. The national debt is now a good fifty times greater than it was before the First World War; the interest alone on the national debt today is larger than the national debt as a whole about 30 years ago; and the big bulk of the present national debt was incurred during the four years of American participation in the Second World War and as a direct result of this participation. The difference between the two capitalist parties over the size of the national budget is, at its extreme points, inconsequential; it is a matter at most of a very few billion out of the total of forty.

The national budget, including the servicing of the fabulous national debt, which are respectively primarily a war budget and a war debt, constitutes by far the greatest single inflationary force in the economy of the country. On the basis of the present national budget—that is, even before it has assumed the much greater proportions which the growing war preparations will surely give it—for the capitalist politicians to speak of any serious check on inflation is at best a sign of ignorance or utopianism; as a rule it is sheer demagogy. The harshest effects of inflation are always felt by the working masses.

Only the mass production of consumer goods under conditions of a high wage level can put an end to inflation on a sound basis. The growing government bureaucracy and growing governmental expenditures necessitated by the growing complexity and antagonisms of capitalist economy, on the one hand, and the growing armaments economy that inevitably accompanies capitalist imperialism, on the other hand, are the most gigantic and principal obstacles to the mass production of consumer goods.

Even in the wealthy United States, an armaments economy means a constant undermining of the prosperity and well-being of the people.

Parallel to the development of an armament economy runs the tendency toward a police state. It is important to judge correctly the speed of this tendency and the stage which it reaches at each point in its development. The failure to do this entails the danger of one of two extremes: succumbing to democratic illusions or confusing the partial unfolding of the tendency with its ultimate conclusion.

The phenomenon, characteristic of all class states today, may be expressed almost mathematically in a broad formula: the greater the share of the armaments economy over against the civilian economy, minus the degree of resistance of the working classes, the stronger is the tendency toward converting the democratic state into the authoritarian or totalitarian police state.

Fortunately, there exist powerful material and ideological forces that exercise a strong braking action upon the tendency to which the United States, like all sectors of decaying capitalism, is subject. They are even strong enough to reverse the tendency toward the development of a police state at specific stages of this development and therewith to strengthen the economic position and the democratic rights of the working class in particular and the people in general.

Materially, these forces are represented mainly and most significantly by the organized labor movement; ideologically, they are represented by the democratic traditions that are so deeply rooted in the United States. The organized working class has not been crushed in this country or even seriously defeated. On the contrary, it is not only at its high point numerically, it is not only established powerfully in basic industries that were still unorganized for years after the First World War, but it is filled with a great self-confidence in its strength, which has only been enhanced by the role it feels it played in the last presidential election.

LA, Apr. 25, 1949

FOA Report

While beginning-of-the-year reviews and forecasts purred out expressions of love and affection for "the strength of our economy," the Foreign Operations Administration has permitted a peek into the underpinnings of that economy.

Statistics being circulated by the FOA (according to Dana Schmidt in the N. Y. *Times*, Jan. 3) "show the extent to which the United States economy has benefited from, or *become dependent on*, the foreign-aid program." (Our emphasis.)

The foreign-aid program, of course, is only one facet, and not the main one, of the Permanent War Economy whose "health" is being toasted so happily nowadays.

Here are some key figures cited by the FOA with regard to hte 1954 fiscal year:

- **A whole quarter of U. S. exports was financed by foreign-aid outlays — $3860 million out of $15,350 million worth of exports.**

- **The agency financed 17 per cent of this country's agricultural exports, or $500 million out of $2930 million.**

- **The latter figure included the financing of 86 per cent of wheat and flour exports, 28 per cent of cotton exports, and 29 per cent of machine tool exports.**

What the FOA is demonstrating, in the course of its statistics, is the dependence of U. S. prosperity on the Permanent War Economy.

LA, Jan. 10, 1955

BROGAN ON AMERICAN MILITARIZATION

"I am sometimes asked what is the greatest change in American life that I have noticed in the nearly 28 years that I have known America. And my answer is always the same: not the talkies, not social security, not the rise of the unions, but the militarization of the country... the rise in size, power, and conspicuousness of the armed forces is the single most important change.

"All this, of course, has taken place since 1940, when the American armed forces numbered around 300,000. Now they number well over 3,000,000, both in 'time of peace.' And the tenfold increase is really one of these changes from quantity into quality that Hegelians and Marxists talk about."

Such is the judgment of Prof. D. W. Brogan, author of a number of books and frequent writer on America for the *Manchester Guardian*, in the issue of that noted British newspaper for February 12, 1953.

And Brogan adds:

"Much of this [American] dislike of the brass seems to me unjust; it is a result of refusing to notice that armies have to be like that, that discipline must often be irrational, that mere obedience is a necessary quality in a soldier, that, as the wise German saying has it, a totally reasonable army would run away."

An apologia for militarism like this is worth noting.

LA, March 2, 1953

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