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CAPITALISM YESTERDAY AND TODAY

by

MAURICE DOBB

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Note to the Reader

The writer's aim has been to direct this pamphlet towards those in the Labour movement interested in the facts of the world we live in rather than in theories about it. Yet it is not always easy to form a clear picture of the world around us, and one cannot separate the picture we form from general ideas. To pretend that we can talk about the facts without introducing general ideas would be foolish, and no such pretence is made here. However, an attempt has been made to reduce to a minimum the technicalities, and still more the jargon, of economic theory—I hope not too unsuccessfully, with the exception of Chapter IV where it seemed impossible to avoid them entirely. The reader who wishes to avoid technicalities altogether may like to know that he can skip Chapter IV without losing any essential thread in the argument.

1. WHAT IS CAPITALISM?

Capitalism is something which everyone talks about nowadays whether he be of the Right or of the Left. Yet it is a word that those using it employ in a variety of senses, with no little confusion and talk-at-cross-purposes as a result. There are some even who deny that it can be given precise meaning at all (these are probably a quite small minority, mainly consisting of those who suppose that a good way of defending a system from its critics is to deny that it can really be called a system at all). Yet others, surprisingly enough, speak of it as something lying in the past: a state of affairs that has ceased to exist, or at any rate is already in process of transformation, here and now, into something else.

To start this pamphlet with a tedious discussion of definitions would be to invite the reader to give up at the first paragraph. On such a discussion I do not intend to enter. At the same time I can scarcely refrain altogether from saying (in as few words as possible, I hope) what I am going to mean by the term capitalism in what follows; and I feel sure that I should be blamed by many, if not most, readers if I refrained from doing so. This I can do the more easily because the sense in which I am going to use it is one that has been common usage of the Socialist and Labour movement the world over for the past century; and it is, I believe, the sense intended by a large majority of those who use the term. I mean a system in which the instruments and appliances, structures and stocks of goods with which production is carried on—in a word capital—are predominantly in private or individual ownership (including in this individuals grouped together as joint-owners in the form of a joint stock company or business corporation, where each person's ownership is separately distinguished in the form of shares). This is sometimes more loosely described as a system of 'private enterprise'. In slightly more technical language Marx spoke of it as a mode of production in which the means of production are owned by capitalists who constitute a distinct *class* in society.

It may be noted that this latter way of putting it adds something that was lacking in our more general description of capitalism as a system of individual ownership. A society where *every*one is an individual owner is not inconceivable; and something approaching it has existed at various places and times in history in the shape of communities of small peasant farmers or artisan-producers. Here there is no separation of 'Capital' and 'Labour' and hence no Capital-Labour conflict, since the owner of the implements of his craft (and/or of his land) at the same time works with his own hands. To recreate such a society has, indeed, been the object of many utopians, some innocently, some as a political deception like the Tory talk about a 'property-owning democracy' in our own day. Evidently such a state of affairs is only possible where the instruments of production are small-scale and primitive. In modern society, with its elaborate and costly technique and productive processes conducted with intricate specialisation and mechanisation, it is impossible for every man to run his own productive process. To start production needs capital in very large amounts—amounts quite out of reach of anyone who has not already accumulated quite a pile (or at least is in a position, socially and economically, to draw other capitalists into partnership with him—as everyone knows, nobody lends to the man who has nothing at all).

What this amounts to is that in modern society a system of individual ownership of means of production must mean at the same time a *concentration* of such ownership into relatively few hands. This very fact of concentration implies its opposite, the *lack* of ownership on the part of others—in fact, of the majority of the population. Thus some own and some work for those that own—indeed are obliged to do so,

since owning nothing and having no access to means of production they have no other means of livelihood. This is the basis for the so-called conflict between Capital and Labour. Actually it is a conflict or struggle of basic interests between two main classes into which capitalist society is divided—broadly speaking between owning capitalists and workers who live by hiring themselves out for a wage. It is this class struggle that forms the historical basis of the Labour movement, with its trade unions and other forms of working-class organisation. In such a society it is generally the case that you can only be rich (in the sense of enjoying a large income) if you first have capital, and the only quick road to economic advancement is to acquire capital with which to put others to work for you. This I have said is generally, or typically, the case—it is true with the exception of a few specially scarce human skills and talents or of cases where individuals can command high fees or a high salary mainly because of their social background or the social prestige that they enjoy.

For this condition of things to prevail, it will, I think, be obvious that two circumstances must exist in the first place. Firstly, for a whole class of persons to be able to earn an income simply by owning and not working (whether or not they *happen* to work as well as own is for this purpose immaterial) there must be some form of compulsion, direct or indirect, on others to work for them, since without work nothing can be produced. As we have seen, the consequence (perhaps we should say the complement, or the other side) of ownership being concentrated in the hands of some is that others are left without property. If this is so, this very fact constitutes an *economic* compulsion on the latter class of persons (the non-owners) to hire themselves out to the former (the owners), i.e. to become wage-workers for a capitalist. Secondly, for some to live (and to live handsomely) by owning, it must follow that others by their productive activity must produce more than they earn. In other words, from the sum total of what is produced by those who do the work of society there must be a *deduction* in order to provide an income for those who own land and capital. This was how the matter was put by the man who has been called 'the father of Political Economy', Adam Smith. Putting it the other way round, those who provide the work of society must produce a *surplus* over their own earnings—surplus-value Marx called it—in order to provide a source, the only possible source, of income on property (profit or interest on capital and rent of land). Property-income therefore comes by *appropriating* part of what is produced by the real producers.

The first of these two propositions has never, I believe, been seriously denied by economists. Indeed the early economists of a hundred or more years ago, whom we call the classical economists, said this in so many words;* although their modern descendants may have conveniently forgotten it or hidden it from view (except when it bobs to the surface in some incautious statement like: "We need some unemployment to keep labour in its place"). But the second proposition they have contested, and many economists would do so stoutly today. They would say that it is either a meaningless statement, which could equally well be turned upside down so as to describe wages as a 'surplus', or else that it sins in attributing 'productivity' exclusively to labour, thereby ignoring the fact that capital contributes to production as well as labour. Now, no one could deny that machinery etc. (which is what the economists in question mean here when they speak of 'capital') is productive in the sense that labour working with machinery can produce more than labour working without, or that the productivity of labour is largely dependent on the level of technique. But this would remain true in whatever form the means of production were owned, and is no reason for attributing part of the product to the capitalists, as though some act of theirs had created

* Indeed, it formed the crux of an early theory of colonisation in the first half of the 19th century (that of Gibbon Wakefield).

it, which is what this productivity-argument of some economists illicitly does.

Some economists, however, have had another string to their bow. One *can* attribute this extra product to the capitalists (they say), because without their willingness to lend their capital, the machinery in question or the modern technique could not have come into existence—or, alternatively, could not have done so without the 'abstinence' or 'waiting' whereby the capital was saved-up and created in the first instance. Since this is not a work about economic theory, we cannot debate such issues fully here. We must be content with the remark that in its first form this 'explanation' could equally well be used in the case of any monopoly right, such as the right to levy a toll or the exclusive ownership of some source of supply (like a scarce well in a desert); and in its second form (that capital is the creation of some human effort or pain of 'abstinence' or 'waiting') it would be advanced today, I think, by very few economists of any school of thought as a *serious* answer to a 'deduction' or 'surplus' theory of profit on capital. Capital, historically speaking, just wasn't created in this way. And who would dare to say that it is the Lady Dockers of the world or the oil magnates today who notably suffer pain or abstinence in the interests of their investments? When one is speaking realistically of the sphere of human activities and relations, it must surely be clear that those who perform some kind of active work essential to the productive process* can alone be said to participate in production in the usually accepted meaning of those words.

Of course, one must not suppose that everything is quite so clear-cut as for brevity it has here been represented. Those who own property may sometimes perform an active role in production as well (e.g. in management or direction),

* Interpreting this reasonably broadly to include moving things about and storing them (where this is necessary) or helping to arrange and organise the productive process as well as actually making things.

and those who work and whose main source of income is a wage or salary may also own something (some saving-certificates or a house or an allotment). Social classes, as distinct from social castes, are seldom separated by hard and fast dividing lines, and tend to shade off into one another (as do colour-bands in a spectrum) at the edges. There may be sections of the wage-earning class who have privileged positions among their fellows, owing to bargaining-power, a favoured position in a prospering industry, or scarcity (temporary or permanent) of their particular type of skill. On the other hand, there may be small capitalists as well as large, with interests that in some degree and on some occasions conflict with those of the latter, for reasons that will be mentioned below. There are intermediate groups not easy to pigeon-hole as either capitalists or wage-workers—various middle strata to give them an ugly but convenient name*; there are even some survivals of the owner-worker type that we mentioned earlier, called "workers on own account" according to the British census classification, which records them as composing about 5 per cent of the occupied population (a class which bulks larger in other capitalist countries, both in Europe and America, than it does here).

To say that a system is predominantly one of individual ownership and private enterprise is not to say that such ownership-rights are entirely limitless and unfettered: in varying degrees they will be bounded by legislation and by the demands of fiscal policy, and 'private enterprise' will be subjected in varying degrees to State control (if only in order to give some coherence and stability to the system as a whole). Thus considerable differences in the actual functioning of capitalism may be found at different times and stages of its growth and in different countries, despite a basic similarity in those general features of which we have

* Andrew Grant in his recent book *Socialism and the Middle Classes* estimates that they compose in this country about 17 to 18 per cent of the occupied population.

spoken. Thus it would be wrong to identify capitalism with the complete absence of State controls over economic life: all States, of course, in varying degrees and in different ways try to exert control over economic life. While any high degree of development of such controls is exceptional under capitalism, it is found nonetheless, especially in conditions such as a modern war presents or when the system is suffering a severe shock as in the 'thirties. (It has to be remembered that the interests of a class as a whole may come into conflict with the separate interests of individual members of it, as well as different sections of it having at times divergent interests.) As we shall see later, there may even be a fairly substantial sector of State enterprise (nationalised industries etc.) within a capitalist system; and while the former may to some extent affect the working of the system, its mere existence does not change the essential character of the system.

But when we have taken account of such qualifications, does our description of this essential character of capitalism still fit the facts? We described this as consisting of such a concentration of ownership of capital as to result in a 'polarisation' of society into a class of owners and a class of non-owners—the former a comparatively small class and the latter constituting (in a country like Britain) the great majority of the nation. That it does so fit the facts becomes, I think, abundantly clear when we set it against the available statistics about the distribution of income and the distribution of property. Figures of the latter are more difficult to come by than of the former. The best known and most widely quoted estimate of property-distribution in Britain before the war is that made by Daniels and Campion and published in 1936 under the title of *The Distribution of the National Capital*. This showed that between the wars more than half of the total capital of the country was concentrated in the hands of 1 per cent of the population (aged 25 and over), and some 80 per cent of the capital was concentrated in the hands of little more than 5 or 6 per cent of the population. This, surely, is concentration indeed!

A more up-to-date estimate has been made along similar lines for the post-war period, and is given below. This shows that in 1946-47 a half of the capital was still concentrated in the hands of scarcely more than 1 per cent of the population (aged 25 and over), and 80 per cent of the capital was owned by 10 per cent of the population. At the other end of the scale were two-thirds of the population who, if they owned anything at all, held less than £100 and on the average no more than £60 each. Thus these small owners or small savers (whose existence is so much advertised by those who wish to deny the existence of a class-stratified society) had quite negligible amounts as regards any income that their 'property' would yield them to live on, which all told accounted for less than one-twentieth of the total capital of the country.

AMOUNT OF CAPITAL AND NUMBER OF PERSONS (AGED 25 AND OVER) IN EACH CAPITAL GROUP IN ENGLAND AND WALES IN 1946-7*

Capital group according to size of holding	Percentage of persons (aged 25 and over) in each group	Percentage of total capital owned by owners falling within each group
£100 or less	60.62	4.16
£100 to £1,000	27.79	10.99
£1,000 to £5,000	8.87	21.59
£5,000 to £10,000	1.38	11.35
£10,000 to £25,000	0.90	16.43
£25,000 to £100,000	0.38	19.18
over £100,000	0.06	16.30
TOTAL	100.00	100.00

* Kathleen Langley in *Bulletin of the Oxford University Institute of Statistics*, Dec. 1950, p 353, and Feb. 1951, p. 44.

As one might expect (since property is not the only source of income) income is distributed with less striking inequality than is capital. Inequality of income-distribution is nonetheless very marked, as the following figures for the middle-fifties show. They show that about one-fifth of all personal income goes to under one-twentieth of income receivers, and one-tenth of it to scarcely more than one-hundredth of them.

DISTRIBUTION OF PERSONAL INCOMES, 1954*

Size of annual income	Number of incomes as percentage of all incomes	Total income received in each group as percentage of aggregate income
Over £10,000	0.05	1.6
£2,000-£10,000	1.15	8.4
£1,000-£2,000	3.5	9.9
£500-£1,000	29	41
Under £500	66	38.7

Actually this table can be said to *under*-estimate the inequality of income-distribution, since it is based on *personal* incomes only, and does not include profits accruing to companies (and therefore to capitalists collectively) but not distributed as dividends to individuals. If we include undistributed profits as well as personal incomes we get a somewhat different picture. The following estimate for 1947 (the writer is not aware of any for a later date) shows that nearly one-fifth of total income went to only 1 per cent of income-receivers, while on the other hand the lower half of income-receivers got only a quarter of the total income.

* Based on figures given in G. D. H. Cole, *Post-War Condition of Britain*, 223.

Cumulative Percentages of Distributed Personal Income and Undistributed Profits in 1947*

Top	1%	of income-earners received	19%	of total income pre-tax
,,	2½%	,, ,, ,, ,,	25%	,, ,, ,, ,, ,,
,,	5%	,, ,, ,, ,,	31%	,, ,, ,, ,, ,,
,,	10%	,, ,, ,, ,,	40%	,, ,, ,, ,, ,,
,,	25%	,, ,, ,, ,,	57%	,, ,, ,, ,, ,,
,,	50%	,, ,, ,, ,,	75%	,, ,, ,, ,, ,,
Lower	50%	,, ,, ,,	25%	,, ,, ,, ,, ,,

Both in the case of capital and in the case of total income there has been some change in the direction of slightly lessening some of the more extreme inequalities in recent decades. But although somewhat modified, the essential picture of concentration and of 'polarisation' remains. Thus the investigation by Mrs. Langley from which we have quoted shows that the top 1 per cent of property-owners (aged 25 and over, in England and Wales) owned 50 per cent of total capital in 1946-7, compared with 60 per cent of total capital in 1924-30 and 70 per cent before the First World War. The estimates of personal incomes *plus* undistributed profits by Mr. Dudley Seers show a much less marked change between pre-war and post-Second-World-War: the share of the top 1 per cent in 1947 was 19 per cent, compared with 20 per cent in 1938, and that of the top 5 per cent was 31 per cent in 1947 compared with 35 per cent pre-war. This is a matter to which we shall return.

Before we finish with the main features of capitalism, there is one thing more that should perhaps be said. Individual capitalists or firms are free (within limits) to

* Dudley Seers in *Bulletin of the Oxford Institute of Statistics*, Sept. 1949, p. 262. It is assumed, of course, that undistributed profits are allotted among shareholders in the same way as are distributed profits. There is, however, this qualification to be borne in mind regarding the inclusion of undistributed profits in income: in a period of inflation some part of them may have to be regarded as a reserve to supplement 'inadequate' depreciation allowances when the latter are calculated on original, or 'historical', cost of assets.

do what they like—to produce what they like, to invest their capital where and how they like. Thus it is an unplanned system. This is what is meant when the term 'anarchy of production' is used for it; implying not necessarily that it operates quite arbitrarily and chaotically, but that it goes without central direction. It is to this that Engels was referring when he spoke of the growing contradiction between the increasingly social character of production and the fact of individual ownership. If it runs thus 'anarchically', with each individual firm or businessman seeking to do what he expects will yield him the highest profit, some explanation is needed as to how it functions as a system at all.

The answer is that the co-ordinating mechanism of such a system is the *market* and price-movements on markets. Every individual businessman takes his decisions about what and how much to produce, where to invest, how much labour to employ and how large stocks of raw material etc. to hold, on the basis of the market prices confronting him (modified doubtless by guesses as to how such prices are likely to change)—prices of output and prices of the various constituents of input that make up his costs. But the sum total of such individual actions exerts in turn an influence on these prices, so that price-changes occur, bringing in their train appropriate 'revisions' in the actions of individual firms; and these price-changes continue until some kind of 'fit' is achieved (or approached) between the myriad of individual decisions, taken separately and 'atomistically'. (Of course, there are some situations where no such 'fit' is possible and prices just go on fluctuating.) It is in this sense that the upshot is not what any individual or group of individuals has consciously willed or designed, but what happens to result from the working of market tendencies—in this sense that the system is said to be ruled by 'objective forces' or by the 'law of value', acting 'independently of man's will'. To say this is not just a piece of mystification as some have supposed.

From this a number of consequences follow, of which we must be content here with singling out two. Firstly, the market-mechanism will exhibit wide and extensive fluctuations of price (which in some circumstances, as we have just said, will have a tendency to converge upon a point of 'equilibrium', but in others will be self-perpetuating and even tending to get cumulatively greater). These fluctuations of price, and of output and employment together with price, levy a heavy toll both in human suffering and in terms of strictly economic cost and economic waste. Such fluctuations may be of particular commodities and their markets, affecting particular industries or regions. But they may also take place on the scale of the system as a whole, as is exemplified in the recurrent crises or periodic fluctuations of total production, investment and employment that have characterised the history of capitalism, and to which we shall return in Chapter V. Secondly, in all those cases—and they are very numerous—where maximum profit to the individual capitalist firm or business stands in conflict with the interests of society as a whole, it is the former consideration that will dominate and the latter that will go by the board. This will apply particularly to the neglect of the welfare of the mass of the population who do the work of the system for a wage; since in a system ruled by the market it is the Power of the Big Purse that matters—which exerts the pull that decides what shall be produced and who is to get first pick of what is going.

All this amounts to saying that capitalism is a form of market-system, or a system of commodity-production as Marx put it (meaning by 'commodities' goods produced, not for direct use by the producer, but for exchange on some market). It does not follow, however, that capitalism is the *only* form of market-system or commodity-production. In history there have been earlier forms of society that rested (in part, at least) on commodity-production and exchange while not being capitalist (for example, 'petty commodity-production' of the owner-producer type); and a socialist

economy may *utilise* the market, and be influenced by the laws of commodity-production, even though not being *governed* by them (since a socialist economy is essentially a planned economy). Lenin summed up the difference very tersely when he said that "capitalism is commodity production at the highest stage of development when *labour-power itself becomes a commodity.*"

II. HOW CAPITALISM CAME INTO BEING

There have been other forms of class society besides capitalism, where a ruling class lived off the surplus labour or surplus product of the working producers: notably slavery and serfdom. Very few even among professional economists would, I think, be prepared to deny that slave-owners appropriated to themselves the surplus labour of their slaves over and above what was necessary for the slaves' maintenance; or that significant economic meaning could be given (moral overtones apart) to the statement that the serf-owner of mediaeval times exploited his serfs by exacting from them a proportion of their produce or of their labour-time. Indeed, it is difficult to see how one could realistically depict the economic essence of these systems without such a characterisation. Yet those same economists, many of them, would stoutly deny that any analogous statement could be made about capitalism, simply because under it the worker is under no *legal* compulsion to yield up his surplus labour to a master, and the compulsion upon him to do so is, as we have seen, purely economic.

The process by which capitalism developed out of a preceding form of class society (mediaeval feudalism) and the serf-labour of the previous mode of production developed into wage-labour was both long-drawn-out and complex. The precise mode and stages of transition have been the subject of a good deal of controversy which cannot be entered upon here. The lines of transition were by no means clear-cut, and important political changes (in the class-content and policy of the State) were involved in it. There has been discussion as to the respective roles played in the downfall of feudalism in different countries by an economic and political revolution 'from above' (e.g. by large merchants in alliance with sections of the landed aristocracy) and by revolution 'from below' headed by small capitalists risen themselves from the ranks of small producers in revolt against feudal exploitation (e.g., the contrast between countries like Prussia and Japan, on the one hand, and the 'classic road of transition' in England on the other*). Whatever may have been the main dissolving force of feudal society, however, two main stages in this transition can be distinguished.

In the first of these stages the small producer secured his emancipation, partial or complete, from the feudal obligations laid upon him. In the second he was separated from his property in the means of production (his small holding of land, his cattle and implements of husbandry or of a handicraft) and was made dependent accordingly on wage-labour for a livelihood. This was the process that Marx described as one of 'primary accumulation' (or 'original accumulation') with its creation of a proletariat. The essence of the process was much the same whether this took the form of direct eviction (as with enclosures of land and the eviction of cotters in our own history), of impoverishment and indebtedness leading to eventual distraint for debt or (as in some regions) of a growth of population greater than could secure holdings on the available land. In the first two of these forms the creation of a proletariat was the reverse side of that concentration of ownership of which we spoke in the last section, both being part of the same conjoint

* Anyone interested in following up this discussion may care to refer to *The Transition from Feudalism to Capitalism*, a Symposium by Paul Sweezy, M. Dobb, H. Takahashi, Rodney Hilton, Christopher Hill (a reprint of articles which originally appeared in *Science and Society* of New York).

process. A crucial element in this development was the social and economic disintegration of the community of small producers: a process which was itself aided by the emancipation of this community from dependence on feudal overlordship and by the growth of production for a market wider than that of the village, and hence the growth of monetary exchange. This disintegration took the form, on the one hand of the emergence of an upper layer of richer peasants, adding field to field, accumulating a little capital and taking to trade and usury, on the other hand of the creation of an impoverished lower layer, forced by poverty and debt to work for a more well-to-do neighbour, to mortgage and eventually to surrender their holdings.

The crucial phase in the rise of capitalism is usually located in the so-called 'industrial revolution', when a series of technical innovations harnessing mechanical power (first water-power, then steam) to production transformed the production process by transferring it from the home or the handicraft workshop to the factory and rendering it a team-process of dozens or scores, and later of hundreds, of workers, in place of the petty, often individual, production of one man or of a mere handful of men with hand-operated tools or mechanisms. This was the crucial change that American writers of today, seeking topical metaphors and spurning the word revolution, are wont to speak of as the 'take-off' into industrialisation, after which capital accumulation and economic expansion acquired a momentum of their own.

This crucial change could not have occurred, however, as the result of technical innovation only. The readiness among capitalist pioneers (frequently men of small capital at the outset) to adopt these innovations and to adapt them to the purpose of production and the market, as well as the readiness of others to extend them, depended on the maturing of a series of preceding developments extending over a long time. One pre-condition was the existence of a class of men used to employing capital in trade and industry, even if on a quite small scale. Another was the existence of more substantial merchant capitals able to extend credit and to provide trading outlets. Moreover, there had to be already-existent markets, as well as channels of trade and means of communication, and above all an available and mobile (not to say fairly cheap) labour supply.

Capitalist relations of production—by which I mean relations of wage-labour to capital—had in fact been maturing for two centuries or more before the industrial revolution. Already in the 16th century there had been technical improvements in some industries which had laid the basis for something like factory-scale production. Improved pumps permitted deeper mining, and hence led to mining enterprises with fairly considerable capitals (even if not what we should call large today). New methods of salt-making, paper-making, sugar-refining, the invention of gunpowder, new methods of smelting iron in primitive blast-furnaces, of copper-smelting and wire-drawing laid the basis for concentrated production and for enterprises with capitals running into thousands of pounds. Thus the end of the reign of Queen Elizabeth I saw powder-mills and paper-mills based on water-power, copper and wire works, not to mention fulling mills in textiles which had appeared on the scene much earlier still. That is to say, there were important changes in the forces of production even at the dawn of capitalism while it was still growing 'within the tegument' of a predominantly feudal society.

As yet, however, these were rather isolated examples, often handicapped by lack of labour (at times relying on impressed or forced labour, e.g. of convicts, especially in mining), sponsored by landowners or by substantial merchants and sometimes relying on the grant of monopoly-rights from the Crown (to obtain which influence at Court was needed). The most common form of production, especially in textiles, was still essentially *handicraft* in basis. Consequently it could be carried on in small workshops or in the home by persons who still retained a plot of land and combined smallholding cultivation with handicraft as a bye-employment. Capital

was of course needed to advance the raw materials and to organise the marketing (and sometimes the finishing) of the product; and this was provided by a merchant (a merchant-manufacturer he came to be called) who put out the work to be done by craftsmen in villages or in the suburbs of trading towns, organised such division of labour as there was between stages of production (e.g. spinning, weaving, finishing) and arranged the sale of the final product. Hence the terms 'domestic or cottage industry', sometimes the 'putting-out system', have been variously used to describe what was the most characteristic form of production in this early, pre-industrial-revolution stage of capitalism, which Marx called the stage of '*manu*facture' to contrast it with the later '*machino*facture' ushered in by the industrial revolution.

But why speak of this as a stage of capitalism at all? The workers were generally not proletarianised: that is, they were not yet separated from their instruments of production, nor even in many cases from occupation of a plot of land. Production was scattered and decentralised and not concentrated. The capitalist was still predominantly a merchant who did not control production directly and did not impose his own discipline upon the work of artisan-craftsmen, who both laboured as individual (or family) units and retained a considerable measure of independence (if a dwindling one).

While it is true that at this date the situation was transitional, and capital-to-wage-labour relations were still immaturely developed, the latter were already beginning to assume their characteristic features. In this putting-out system the employer-employed relation was clearly discernible, and the price the domestic craftsman received for his product came increasingly to resemble a piece-wage for the work done. The artisan-craftsman's independence and hold upon his instruments of production were rapidly losing anything but a nominal character. The process of 'disintegration' within the petty mode of production that we mentioned above was at work in the ranks of the domestic handicrafts-men: many, falling into economic difficulties, were losing their independence and becoming semi-proletarianised; the more prosperous were accumulating some capital and becoming employers to their poorer neighbours, so that increasingly those who financed and organised industry (and also pioneered improvements), instead of being primarily merchants, came to be rising capitalists from the ranks of the producers themselves. In hosiery, following the invention of a more complicated knitting-frame, it became common in the second half of the 17th century for these frames (too expensive for small men to buy) to be hired out to domestic craftsmen, a special Company being even formed for this purpose; and in the following century there were frequent complaints of exploitation of the craftsmen by drastic increases in these frame-rents. Something similar occurred in some cases in cloth-weaving, where the loom came to be owned by the 'employer', either because it had been distrained for debt or because the craftsmen were too poor to buy one originally. In the miscellaneous metal trades (including nail-making and toolmaking) some capitalists assembled craftsmen under their own roofs instead of putting out work for them to do in their homes. Iron production in the 18th century was becoming increasingly concentrated, and in agriculture there was a similar tendency towards concentration of landowning and of farming*.

With the more widespread technical changes of the late 18th and the 19th centuries these processes that had been going on over the previous two centuries or so were greatly speeded up and carried a crucial stage further. Compared with what had gone before, the *tempo* of development became exceedingly rapid. Even so, one should not exaggerate the speed with which the transformation to factory industry, with its concentration of production and its direct employing-capital-to-wage-labour relationship, was established. This transformation was very uneven, and remnants of the period

* Details of such developments at this period can be found in Chapter Four, section I, of the writer's *Studies in the Development of Capitalism*.

of 'manufacture' continued well into the second half of the 19th century. Nevertheless by the middle of the 19th century what we know as the modern capitalist factory-type of production-process had become predominant and typical in British industry. A rapidly growing proletariat, recruited partly from the surplus population of the countryside (product of enclosures and of the decay of village handicrafts) and partly from natural increase of population (which was much more rapid from the last quarter of the 18th century onwards, only to slacken again towards the end of the 19th) supplied the labour force for an expanding industry and a field of investment for growing accumulation of capital.

III. COMPETITION AND MONOPOLY

Once it had got into its stride, the process of capital accumulation could proceed very rapidly, simply by piling-up and ploughing-back into industry the profits that were currently reaped. Along with capital accumulation and investment marched continuous improvements in technique. In this respect—in constantly revolutionising its own methods of production—capitalism was very much more progressive, at least in its heyday, than any previous mode of production in history had been; even though the growth-rates achieved by capitalism, even in its boom periods, are moderate compared with those achieved by socialist planned construction in the socialist sector of the world in recent decades. Throughout most of the 19th century capitalism was highly competitive, in the sense that individual firms were fairly small (generally family concerns or partnerships) and numerous in each industry; no one was large enough to exercise a perceptible influence over its market; and price-agreements between them, although they were by no means unknown especially in local markets, were less common than they are today. Free trade and free competition were the watchwords of the hour, and each businessman knew that if he was not on his toes, constantly finding means to cheapen his product, he would be shouldered out of the market by his competitors. Innovation thus became the key to success. Capital was accumulated in order to provide the wherewithal to innovate; and at the same time innovations in technique afforded a field and outlet for capital, even when capital was accumulating faster than the supply of wage-labour grew (as it tended to do).

Why, it may be asked, if capital accumulated thus fast, so as to outrun even the high rates of population-increase of the 19th century, should not the competition for labour thereby created bid up wages (the price of labour-power) so greatly that the basis of capitalism as a profit-making, surplus-value-creating system was undermined? This was certainly a question that was present in the minds of both capitalists and their economist-advisers in the 19th century and caused them no little concern. The latent tendency for this to occur can be said to be one aspect of a basic contradiction of capitalism; and it was something to which Marx paid a good deal of attention. The reason why (he declared) this tendency never became actual (except temporarily) was because the industrial reserve army of unemployed or casually employed was continually being recruited and swollen by the occurrence of technical change with a labour-saving bias. Indeed, the very operation of the tendency produced its counteraction: as capital accumulation, outrunning the natural increase of the labour force, depleted this reserve army and raised wages at the expense of surplus-value, a bias was imparted to mechanical improvement to produce the same or a greater output with less labour, with the result that the industrial reserve army was automatically swollen again. Thus labour-power acquired the peculiarity of being a commodity that (save exceptionally) was in a state of *surplus-supply*, and unemployment or under-employment became a chronic condition of the system. In the earlier stage of capitalism, of which we spoke in the last section, a reserve army had been created by the process of primary

accumulation; in the full maturity of capitalism it was kept replenished by the constant revolutionising of technique with the special bias that under capitalism this tended to acquire.

With more rapid capital accumulation and the revolutionising of technique that went with it, the process of concentration of which we have several times spoken was carried an important stage further. This was concentration at two levels. Firstly, it was concentration at the level of the production-unit. With more complex mechanical technique, carrying with it a more complex division of labour and separation of distinct processes and stages within the factory, came the economic necessity for larger production-units. Instead of the primitive forge, the modern battery of blast-furnaces and the integrated unit of blast-furnaces, coking plant, steelworks and rolling mills; instead of the toolmaking workshop, the modern heavy engineering plant. To start up production now required initial capital running into hundreds of thousands, even millions, instead of a few thousand only; and the sphere of independent action of the small capitalist tended to be narrowed. Secondly, at the level of the firm or the company there was also concentration and centralisation: there were larger concentrations of capital in individual ownership and there were aggregations of many distinct capitals to form the modern joint stock company or business corporation (as in America such aggregations are called).

But this competitive stage of capitalism by nurturing the process of concentration was undermining the very existence of competition, at any rate in its old form of small businesses cheapening commodities as the way of stealing a larger share of the market (price-competition, as this has come to be called). Concentration was doing so by laying the basis for monopoly in its various forms. Although the original meaning of the word monopoly is sole seller of something, monopoly has come to mean in economic writing the power of appreciably influencing the supply and hence the price of a commodity. This is of course a matter of degree and need not be absolute to be economically important. If a capitalist firm is sufficiently large for its output-policy to exert a significant effect on the market-situation and hence on the market-price, it may operate a considerable degree of monopoly-power, even though the number of other (small) firms competing with it in the same line of business is quite large. While domination of the market is the criterion of monopoly-power, this of itself is no more than the means, the instrument, whereby the ultimate aims of monopoly are pursued. And since the motive and driving-force of capitalism is profit, the aim of monopoly is to enlarge its own profit by restricting output and raising price.

One way of dominating the market that is much in vogue today is to create a 'speciality product', maybe in the form of a new style or model or maybe just something with a new label or trade-mark, and by salesmanship and advertising (coupled perhaps with some exclusive or preferential agreement with selling agencies) to cajole or bully buyers into accepting it, thereby creating a preferential market for this product. Another device is to carve up the market into protected 'territories' for each of the main sellers, either by a trade agreement among the firms involved or else by the stronger firm or firms threatening to make it hot for anyone poaching on their 'territory', so that smaller and weaker competitors feel it safer to keep away. Something like this happens in the market situation that has come to be known as the 'price leadership' case, where a large firm (or a group of large firms) co-exists in an industry with a considerable number of smaller firms. There is no explicit agreement between them and the latter remain independent competitors; yet the former is able to fix the price at what is most profitable to itself, and the latter do not undercut this price, but are content to take whatever share of the market is left to them rather than risk a price-war with their stronger rival.

Thus monopoly does not exclude competition in all senses of the word: there is still competition in the sense of rivalry

and conflict *between* firms, each of which possesses a high degree of monopoly and wishes to increase it, and also between such firms and smaller firms. The point is that the *form* of competition changes. Instead of the price-competition of the 19th century type, there are advertising wars and selling-campaigns (the battle between rival brands of detergents may come to mind); competitors as well as consumers are bludgeoned into line by methods like the boycott and the tying-contract made with distributive firms, not to mention agreements to enforce resale price-maintenance and to outlaw the cut-price seller. Finally there may be the use of political influence to secure preferential allocation of contracts or fiscal protection against incursion into the home market. This does not mean that price-cutting never occurs. Certainly there are outbreaks of price-war, of which there are several instances in the history of the oil monopolies. But these are apt to be temporary interludes between periods of truce or agreement.

The most complete form of monopoly is the amalgamation or merger by which rival firms agree to combine into one, or the largest of them swallows up the rest. Less complete than this is the combining of firms which retain their separate identity, while their interests are linked by an exchange of shares or what is called 'interlocking directorates' or some 'community of interest' agreement (*interessengemeinschaft* in the German) between them; or again the holding company which has a controlling interest in a number of satellite firms. At times the latter has been used in connection with a device called 'pyramiding' to give one man or group, with a comparatively small capital-holding in the parent company, control over an empire of companies with several hundred times the capital all told (as with the notorious empire of the American financier Insull who came to grief in the financial crash of 1929). There are then looser forms of market agreement, which leave firms independent as producing units, but bring about some measure of co-ordination of their marketing. Best known of this type is the Cartel, which in its complete form is a selling syndicate formed to take over or control the marketing of the output of member firms. In order to maintain price there is generally a system of output-quotas allotted to each firm in order to ensure that total output shall be consistent with the desired minimum price.

If output is restricted, however, it follows that extension of productive equipment (in the shape of plant and machinery) must be restricted also. This has to be done by putting obstacles in the way of new firms setting up in the industry in question: if they did in any numbers then, of course, the monopoly position of those already established in the industry would before long be undermined. Thus it is not only the danger of price-cutting from firms already in the industry that has to be eliminated, but also from newcomers attracted by the prospect of sharing the high monopoly profits. Sometimes, of course, this is what happens, especially in the looser types of monopolistic agreement, and in industries where it is not difficult for firms with small or medium capitals to set up and get a footing in the market. Then, even if there is no serious under-cutting of the monopoly price, the long-run result may be the attraction into the industry of so large a number of firms that none of them is able to work at full capacity (i.e. not with the size of the market limited by the prevailing swollen prices and profit-margins). In many industries, however, it is not economically feasible to start production on less than a large scale (because of the nature of the technical process and the costly initial installations that have to be made). Here entry to the industry is necessarily limited to those possessing large initial capitals, and already-established firms have the great advantage of having got in first and of security against intruders. Yet again firms may be deterred from setting up in rivalry with those already established, not only by the initial costs of starting up but also by the risk of loss involved in getting a foothold at the expense of the established.

Even where, however, a monopoly is secure against the

challenge of new competitors, it is itself faced with a serious problem: namely, that if expansion of productive capacity is to be curbed, it is debarred from reinvesting its own monopoly profits in its own industry. Where then is it to invest them? The higher monopoly profits in the monopoly industries should make for heightened accumulation of capital; and it is a notable feature of the present stage that large concerns accumulate capital in the form of company reserves, and that a major part of investment is financed from this corporate 'internal accumulation'. Hence the urge to invest, if not in monopoly industry itself then somewhere else, is strengthened.

This would seem to be a central contradiction of capitalism in its monopoly-stage. In so far as rivalry continues between the big concerns, and the impulse to get bigger and more dominant is uppermost, the tendency is probably to reinvest within the industry or monopoly sector itself. To the extent that this is done, excess productive-capacity is created beyond what can be fully used; and despite the high profit-margins* this will tend to depress the *rate* of profit per £ of capital invested (since the amount of capital has been increased whereas the *total* profit that can be realised is limited by the amount of commodities that the market will take at the prevailing monopoly-price). When this occurs, further investment in the monopoly sector of industry is likely to be halted, and pressure will develop to find other investment-outlets instead.

Where are these other investment-outlets to be found? Firstly, investment may take place in smaller-scale competitive industries to which entrance is unrestricted and relatively easy; thereby intensifying competition in this sector of industry and depressing profits accordingly. This very

* Profit-*margin* is here used to mean the amount of profit earned on each unit (or piece) of output produced and sold, to distinguish this from (a) *total* profit (which will depend on the amount produced and sold), (b) the *rate* of profit which is total profit in relation to the total capital invested.

depression of profits is likely to make extensive investment there unattractive; although in some cases the monopoly concerns may, of course, annex these industries (or parts of them) and add them to their own domain. Secondly, and more extensive in its possibilities, there is export of capital to economically underdeveloped parts of the world. Here rates of profit are likely to be high, labour plentiful and cheap and raw material resources abundant. Being virgin fields for exploitation they form eminently suitable ground for reproducing the monopoly conditions and policies made familiar at home, especially if political pressure and control can be exerted to secure economic privileges.

This is one of the ways—I am not suggesting that it is the only way—in which the growth of monopoly in the most advanced capitalist countries is linked with that economic and political penetration (leading to eventual domination) of undeveloped countries which goes by the name of modern imperialism. The closing decades of the 19th century were marked by the 'scramble for Africa', whereby most of that continent was carved out as exclusive colonial territories by the leading Great Powers within the space of little more than ten years. About the same time came the renewed interest, especially of Britain and Germany, in securing 'concessions' in China; Germany's *Drang nach Osten*—drive through the Balkans into the Middle East; and round the turn of the century the quick if retarded rise of 'Dollar Diplomacy', with its similar interest in economic and political penetration of Latin America and the Pacific. By the time of the First World War British capital abroad amounted to between a quarter and a third of all capital in the possession of the British capitalist class; so that as far as British capitalism was concerned, especially British *monopoly*-capitalism, the British Isles were no more than the metropolis of a far-flung, dependent economic and political empire. Britain had never, of course, relinquished her hold on India, a colony of an earlier period (so-called Mercantilism during capitalism's first stage); now she showed renewed economic

interest not only in India but also in Egypt and the Sudan, East and West Africa and also the Far East.

Foreign investment was not, of course, anything new. In the case of Britain, foreign issues had figured quite largely on the London capital market earlier in the 19th century, being sponsored by the large 'merchant bankers' of the City which specialised in this line of business. These foreign issues were largely government or government-sponsored loans; and although creditors like Rothschilds doubtless imposed conditions upon the borrowers, such loans did not involve *direct* exploitation and control. British capital participated largely in the financing of railway development both in Europe and America during the mid-19th century. What gave export of capital in the new epoch of imperialism a qualitative difference was that it increasingly took the form of direct business investment in mining and plantations, public utilities and later manufacturing concerns. Companies were specially established on the colonial territories, as sister-companies or subsidiaries of companies at home and commonly enjoying extensive monopoly privileges there.

There have been many works written on this new imperialism (including well-known works by J. A. Hobson, Leonard Woolf and Rudolph Hilferding); but the one that has probably had the most widespread influence all over the world has been Lenin's *Imperialism: the Highest Stage of Capitalism,* written at the time of the First World War. His characterisation of its main features is worth quoting in summary:

> "(1) The concentration of production and capital developed to such a high stage that it created monopolies which play a decisive role in economic life. (2) The merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a financial oligarchy. (3) The export of capital, which has become extremely important, as distinguished from the export of commodities. (4) The formation of international capitalist monopolies which share the world among themselves. (5) The territorial division of the

whole world among the greatest capitalist powers is completed." (Chapt. VII).

The statement that there is export of capital to the colonies and direct investment there by big business and financial institutions in the home country must not be misunderstood. The claim is often made that imperialism plays a progressive role in developing the colonies. But what needs emphasising is the large extent to which this investment goes into developing production for export and the small extent to which it develops production for the home market in the colony. In many cases, if it goes beyond primary production (mining, plantations etc.), the industry it creates constitutes an 'island' in the colonial area that is linked with the economic system of the imperial country rather than with that of the colonial country as a whole. (Venezuela is often cited as an outstanding example of this; also oil countries of the Middle East). That most foreign capital went into export industries seems to have been true in the case of British investment in the 19th century; but this is particularly true of American investment in the present century (e.g. in the 'twenties and since 1945). One estimate shows that of American foreign investment in the three post-war years, 1947-9, more than nine-tenths was direct business investment and nearly four-fifths was in colonial or semi-colonial countries; yet of the latter as much as nine-tenths was in oil. Of all American capital already invested abroad at the end of the 1940's, about half was in developed capitalist countries and a half in underdeveloped regions of the world; and of this latter half nearly two-thirds was in primary, or extractive, industries producing mainly for export.*

* See Professor R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, pp. 82-3. The author concludes: "Foreign capital, instead of developing the domestic economies of low-income countries, has served to harden and strengthen the system under which these countries specialised on the production of raw materials and foodstuffs for export" (p. 84). Also see Paul Baran, *The Political Economy of Growth*, pp. 173-200.

To return to the effect which the development of monopoly capitalism has on the home country, standing at the metropolis of empire: how is one to summarise the general effect these developments have had on capitalism as an economic system?

We have seen that the monopoly groups through their dominance of the market and their monopoly-price policy can enjoy a larger total profit than would otherwise be the case. Unless this is offset by the growth of excess capacity, the monopoly sector will also enjoy a higher *rate* of profit per £ of invested capital than the 'normal', or 'average', rate. The question may be asked: at whose expense does this larger share of total surplus-value come?

One could, of course, say that it comes indifferently from all consumers of monopolised commodities. In a sense this is true; but to say so does not take us very far, since whether any particular group of consumers suffers in its *real* income (i.e. in the quantities of actual things it can purchase) depends on whether or not it is able to obtain a rise in its money income to match the rise in its cost of living. For example, the working class may be immediate losers from monopoly-price policy which reduces real wages and equivalently raises profit. But whether th s is what ultimately happens depends on the strength of trade union organisation and its militancy in securing an offsetting rise of money wages. (If they do so, they will no doubt get blamed for causing 'inflation', i.e. an upward spiral of prices, as they have in recent years, since inflation is one of the mechanisms whereby the share of wages is 'automatically' kept down). What is also likely, perhaps more likely, is that other sections than the organised working class which have fixed money incomes or are without the organisation or social 'pull' to raise them will bear the brunt: for instance, medium and small salaried workers and professional people and other sections of the so-called 'middle class'. Indeed, it is this likelihood of their being sufferers from monopoly-price policy that provides an economic basis for alliance between such sections and the organised working class in the period of monopoly capitalism (although the former may be, of course, slower than the latter to appreciate that they are being exploited).

But there is also another possibility: the monopolists may gain at the expense of capitalists in the still-competitive (or more competitive) sector of industry. In other words, there may be a redistribution of the total surplus-value created by capitalism—a redistribution *within* the capitalist class in favour of the monopolists. To this extent the tendency for surplus-value to be averaged out in a (roughly) equal rate on all capital, which operated under competitive capitalism*, is replaced (or at least modified) by the prevalence of a *different rate of profit* in the monopoly sector and in the competitive sector (where it will be equivalently lower). This is, of course, to give a very simplified picture, since we have seen that there is no sharp line of distinction between competition and monopoly; monopoly-power being a matter of degree. Yet this simplified picture embodies an essential element in the situation, since such differences in the rate of profit may be the ground for important fissures and conflicts within the capitalist class itself at this stage of capitalism.

Finally one must remember that an important element in the higher profit-rate of the monopoly sector (and to some extent in the profit-rate of the imperialist country as a whole) is the additional profit (or 'super-profit') derived from economic relations with colonial regions. Such relations may take a variety of forms: export of capital to enjoy a higher profit-rate there; the securing of so-called 'concessions'

* The reason for this is that as long as there are differences in the profit-rate, there will be a tendency for capital to move from where it is low to where it is high, and as capital moves this tends to level out the rate (lowering it in industries into which capital moves and raising it in those from which it moves). But once movement of capital ceases to be free because entry of new capital into some industries is obstructed, this tendency ceases to operate or at any rate to operate fully.

granting monopoly-rights and privileged conditions of direct exploitation (as with oil companies in the Middle East); favourable trading relations that enable trade to be conducted on advantageous terms (buying cheap and selling dear)*—favourable terms of trade which may accrue in higher profits to the monopoly trading companies concerned and/or more widely to capitalist firms in the home country which buy imported colonial products or export to colonial (and semi-colonial) markets. Some crumbs from the table may even fall to the working class of the imperialist country, sometimes quite substantial crumbs.

Generally the effect of monopoly is restrictive—to restrict output in the interests of price-maintenance, to aggravate the problem of excess capacity by putting the brake upon price-cutting to 'clear the market', to blunt the drive towards constant cheapening of production by technical innovation, of which we spoke earlier in this section as one of the hallmarks of capitalist competition. One would expect monopoly to sabotage technical progress (in order to maintain the values of capital sunk in older methods) and not to pioneer it. There are indeed examples of monopolies buying up patents in order to sabotage their use. However, if we look at the past half century as a whole, we do not see much, if any, evidence of a slackened pace of technical innovation in capitalist countries. The period of and after the two world wars has witnessed some striking revolutions in technique and the rise of new industries, products and processes. Some economists† have used this as a reason for claiming that monopoly results in more, and not less, innovation than does competition, because it can mobilise capital on a larger scale, take risks more boldly and plan both research and the application of its results more effectively because on a larger scale. It can be argued that the crucial revolutions in

* This is what the Soviet textbook on *Political Economy* refers to as "non-equivalent trade" (p. 301).

† Notably the late Joseph Schumpeter.

technique were a by-product of war and the overriding of ordinary capitalist motives by the instrument of State control and the needs of a war economy. To some extent this may be true. Yet may not the simple answer to the riddle be that technical progress has come *despite* and not because of monopoly—that the very concentration of production (Engels' "increasingly social character of production") on which capitalist monopoly is based tends in the direction of more rapid change, whereas monopoly *per se* as a form of capitalist control and motivation is purely restrictive?* Also we have to remember that monopoly is seldom complete, and there remains intense rivalry *between* monopolists as a factor in the situation.

One cannot close this section without emphasising that monopoly, since it implies a concentration of power within capitalism as a whole, results in a much stronger and closer *political* control over society and over government policy. Thus the State comes to express, not merely the interests of capitalism and of the capitalist class as a whole, but the interests of the dominant monopoly groups within capitalism, furthering the interests of the latter even if this be at the expense of other sections of capitalists. This has to be borne in mind when we speak of the growth of State Capitalism, as we shall do in the final section. On the eve of the Second World War the United States Senate appointed a special Commission to investigate what came to be called "the concentration of economic power"; and two well-known American investigators (Berle and Means) in the inter-war period found that approximately one-half of all non-banking corporate wealth in the U.S.A. was at the time controlled by 200 companies and that these giant corporations had been growing between twice and three times as fast as all other corporations*. These investigators summed it up by saying: "The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern State . . . (and which) the future may see possibly even supersede it as the dominant form of social organisation."

* One may recall Lenin's statement that the result of monopoly is "immense progress in the socialisation [i.e. social character] of production" and that "the process of technical invention and improvement becomes socialised"; and again that in the stage of imperialism "it would be a mistake to believe that this tendency to decay precludes the possibility of the rapid growth of capitalism . . . capitalism is growing far more rapidly than before." (*Imperialism,* Chaps. I and X).

IV. FALLING PROFIT-RATE AND LABOUR'S SHARE

One sometimes hears it said that socialist forecasts about the future of capitalism have not been borne out, and that accordingly there is no reason to suppose that capitalism will progressively fail as an economic system and be replaced by socialism. Marx is held to have forecast simultaneously a steady fall in the standard of life of wage-earners and a progressive decline in the rate of profit on capital, neither of which has in fact occurred.

It would indeed be surprising if an economist writing a century ago turned out to be right in everything he ventured to forecast about the state of the world today. Some might even think it surprising and significant if any substantial part of the things he had said happened in fact to come to pass. In Marx's case there were doubtless many things he did not foresee about our present-day world—some that he would never have pretended to be able to forecast, others about which he sketched tentative forecasts which subsequent history has not confirmed (or has only partially confirmed). Yet with regard to main tendencies such as the economic

* In 1947 a survey of the U.S. Federal Trade Commission found that 135 manufacturing corporations, or under half of 1 per cent of all, controlled 45 per cent of the net capital assets of them all. (*Review of Economics and Statistics,* Nov. 1951).

concentration of which we have been talking, the class struggle and the growth of the organised working-class movement, the arrival of socialism on the historical scene with a much bigger potential for economic growth than capitalism, how abundantly right he was—much more so than any other 19th-century economist!

As regards a falling profit-rate tendency, it is worth noting that a common obsession of economists of all schools of thought in the early and middle 19th century was what they called the approach of a 'stationary state', in which profits had fallen so low as to sap the motive for further capital accumulation; and some of them envisaged this as only a little way ahead*. Many of them were fairly pessimistic also in their belief in the tendency for wages to fall to a subsistence-level whenever the demand for labour ceased to expand faster than supply (they were living, of course, in a period when trade union organisation was weak or non-existent). It may well have been that Marx, sharing in at least some respects the current climate of opinion, took for granted that such things would indeed come to pass within the fairly near future. But it has to be remembered that in speaking of the "tendency for the rate of profit to fall" he spoke of this as no more than a *tendency* to which there were a number of "counteracting tendencies" which he explicitly stressed in detail. To put it in a nutshell, the reason he saw for this tendency was that technical progress would tend to raise the ratio of 'stored-up labour' (plant and structures) to 'living labour' in production; and two among the counteracting tendencies he mentioned were the simultaneous effect of technical progress in cheapening the production of machinery etc. itself, and in raising the amount of surplus-value produced by each worker in a given time as a result of raised productivity.

It is commonly supposed that Marx forecast a steady

* One of them was J. S. Mill, who thought that only the large foreign investments of that time had precluded its arrival already.

decline of real wages as capitalism developed, and that he has been proved wrong. This I believe is a misunderstanding. I do not know of any passage in which Marx says this in so many words; and the context of his much-quoted references to "progressive impoverishment" and "increasing misery" (in Chapter XXV of Vol. I of *Capital*, entitled "The General Law of Accumulation", sections 3 and 4) makes it clear that he had principally in mind the industrial reserve army of unemployed or chronically under-employed (the pauperised "lazarus layers"), and that he included in their "lot" such things as insecurity, loss of status and of pride of craft, "mental degradation" and "ignorance", as well as lack of the material means of livelihood. At any rate, to this tendency also there were counteracting factors; and at the close of section 3 of this very chapter he is vaunting the ability of trade unions "to destroy or to weaken the ruinous effects of this natural law of capitalist production on their class". Elsewhere Marx himself expressly repudiated the so-called 'iron law of wages' (often wrongly attributed to him, whereas the phrase belonged to Lassalle), and emphasised that not only could trade unions for a time raise the 'market price' of labour-power above its 'value', but that a "social and historical element", differing at different times and places, entered into this 'value' (or 'normal level'), and accordingly rendered the latter subject to historical change.

At any rate, what mattered for Marx was less the precise way in which such tendencies worked out than the *contradictions* and hence social conflicts which they cradled. As we have said, these have by no means been mollified since the last century, even if they may have changed their form. On the contrary, they have in many ways grown more acute. Class struggle over the division of the national income between wages and profits is more extensive and sustained, and backed by strong and continuing organisations. To the guerilla-skirmishes of market competition has been added the tougher and more deadly warfare of big monopoly groups. As for imperialism—the new 'dollar diplomacy' of which people wrote and talked earlier in the century has graduated into the ruthless 'atom diplomacy' of today. The inter-war period witnessed about the deepest and most devastating economic crisis and slump on record, which revived talk even among academic economists of the arrival of an era of economic stagnation. True, in the prolonged 12-year boom of the post-war period it has become fashionable to treat such stagnation-talk as an historical curiosity of the 'thirties. Yet events at the time of writing—the new so-called 'recession' in U.S.A. and what the American left-wing economist Paul Sweezy has called (*Monthly Review*, June 1958) the prospect of "creeping stagnation"—makes this sunshine talk of the past decade highly dubious, to say the least. One is sharply reminded of the nemesis that awaited similar talk about 'the era of American prosperity' in the 'twenties.

The facts, however, about these much-debated tendencies are fairly clear—or at least as clear as the statistics available to us can make them. The chief ground of Marx's falling-profit-rate tendency, as we have seen, was the rise in the ratio of the fixed capital element (machinery etc.) in what he termed 'constant capital' to labour. This certainly has occurred. In Britain it has been estimated that real capital per worker between 1870 and 1938 nearly doubled: "the equipment with which the average man worked was twice as great in 1938 as in 1870 if we reckon it in units of brick and steel".* In U.S.A. since 1870, with the exception of the decade of the 1930's, capital has increased persistently faster than the labour-force, in some decades twice as fast.† Among the counteracting tendencies mentioned by Marx was what

* Prof. E. H. Phelps Brown and Bernard Weber in *Economic Journal*, June 1953, p. 266. It should be noted, however, that since productivity per worker had risen by about the same amount, this does *not* necessarily mean that capital per worker in *value*-terms has risen.

† W. Fellner, *Trends and Cycles in Economic Activity* (New York, 1956), p. 242.

he termed "increase of relative surplus value" (i.e. of the *share* of surplus value in total output) due to higher productivity of labour.* There is no doubt that productivity of labour has increased along with the advance of technique (it approximately doubled between 1870 and 1938 in this country; and in manufacturing it rose nearly 40 per cent between 1924 and 1937). Moreover, this increase applied in large degree to goods consumed by workers—to so-called 'wage goods'. At the same time, however, real wages have risen since 1870 instead of remaining constant; the main reason for this evidently being the increasing strength of working-class organisation (although it has to be borne in mind: (*a*) that increased productivity and its tendency to raise 'relative surplus value' has made it possible for capitalism to allow labour to participate in the increase without retarding effect on the process of capital accumulation; (*b*) that an appreciable part of the rise in real wages in this country was due to improved 'terms of trade' with colonial and semi-colonial areas due to a relative cheapening of agricultural imports, as notably in the 1870's and 'eighties and again between the two wars).

So far as available estimates go,† there are signs of a tendency for the rate of profit to fall in U.S.A. prior to the turn of the century. After that there is some conflict of

* Higher productivity in itself operated so as to lower the value of the product. To have the effect in question, this cheapening had to apply to goods consumed by workers, and hence (with real wages constant or rising less than proportionately) lower wages in terms of money (of unchanged labour-value).

† Such estimates are not so easy to come by as might at first appear. For this purpose it is not sufficient to take simply the current yields on current share values, since the market tends to adjust the latter to any changes in the former that are thought likely to last. To be significant for the purpose in hand, current profit-earnings have to be related to the original value or cost (or alternatively to the replacement cost) of the capital; and this is not always easy to do, and even when done the result is apt to be rough and approximate only.

evidence; one authority* claiming to find a rise since about the end of the First World War, another† to detect a continuing, if small, fall since 1900. In Britain the rate of profit in the *industrial* sector is estimated to have fallen from about 16 to 17 per cent in the 1870's to 14 per cent just before the First World War, and to an average of around 11 per cent in the inter-war period (when, of course, special depressive factors operated).‡

As regards the percentage share of wages in (home-produced) national income, statisticians tell us that this has changed remarkably little since around 1870: in the U.K. this was about 38.6 per cent in 1870, 36.6 per cent in 1913, 38.3 per cent in 1939 and 41.9 per cent in 1950.§ Bowley's estimate of the share of wages in *total* national income is slightly different, but gives the same general picture: 37½ per cent in 1880, 35-36 per cent at the end of the century, and 37½ per cent again in 1913.|| It may be that the constancy of this percentage share is rather less rigid than the figures suggest at first glance. But they indicate at any rate that there cannot have been any very marked change in the share, and seem enough to suggest that there operates in capitalism some pretty strong resistance-mechanism to any enlargement of labour's relative share in growing output even under favourable circumstances—that there is a fairly

* Joseph Gillman, *The Falling Rate of Profit*, pp. 55-7 and Appendix 3. Dr. Gillman suggests that the 'organic composition of capital' may have stopped rising and even fallen after about 1920 (pp. 55-7 and 77-81).

† Fellner, *op. cit.*, pp. 254-6. The fall in the ratio of 'property income' to capital stock he estimates at about 15 per cent between 1870 and 1900 and about 15 per cent again between 1900 and the present day.

‡ Phelps Brown and Weber, *loc. cit.*, p. 272. This falling trend was, however, not observable for *all* capital, i.e. for both industrial *and* other forms of building and equipment.

§ Phelps Brown and P. E. Hart in *Economic Journal*, June 1952, pp. 276-7.

|| A. L. Bowley, *Changes in the Distribution of the National Income 1880-1913*, p. 25.

rigid ceiling on any encroachment of wages upon surplus-value.

If the ratio of capital to labour (nearly but not quite the same thing as Marx's 'composition of capital') is divided by the productivity of labour in terms of output, you get the capital-output ratio, which has been talked about quite a lot recently. According to statisticians this too has shown no uniform trend over the past century. In U.S.A. up to the First World War it seems to have been rising, but since then to have shown signs of falling again until in 1950 it was approximately the same as in the 1870's.* In Britain it has been suggested that, after falling between 1870 and the 1890's, it rose again until by the eve of the First World War it was a little higher (but only a little) than it had been in the 1870's, and that it was at roughly the same figure again just before the Second World War (being somewhat higher apparently here than in U.S.A.).† There is some indication in these figures and in one of the rival estimates of profit-trends that the period around the First World War may have represented something of a climacteric. But the indications are far from clear; nor if so is it clear exactly why.

V. ECONOMIC CRISES

We mentioned earlier (in Chapter I) that a leading feature of capitalism was the 'anarchy of production' (i.e. its lack of central planning and direction) and that this creates the possibility of development being uneven and leading to periodic disruption of the market-links through which the constituent atoms of the system are held together. In some countries, especially underdeveloped ones, this anarchy of production is a reason why developments which require co-ordination of a number of parallel and simultaneous processes

* Fellner, *op. cit.*, p. 244.

† Phelps Brown and Weber, *loc. cit.*, p. 266.

do not take place, and economic stagnation or even decline supervenes. In developed countries it is a reason for periodic economic crises.

Throughout its history (certainly since the industrial revolution and perhaps to some extent before) capitalism has shown striking unevenness of development, not only in the sense that different sectors and regions have grown at different rates, but in the sense that the system as a whole has shown a marked rhythm of fluctuation between alternating periods of expansion and of retardation and contraction. So regular has this fluctuation been in its periodicity as to cause many people to speak of it as the 'decennial cycle', because during the 19th century breaks in the boom or expansion-phase used to occur *roughly* every ten years (sometimes a year or two less, sometimes a year or two more). It was also a feature of these cycles that (with one or two exceptions) they coincided approximately throughout the capitalist world.

Of these crises that of 1929-31 in U.S.A. (which had by then become the most advanced country of the capitalist world) was in major respects the most severe on record. Between the peak of the boom in 1929 in America and the summer of 1932 industrial production fell by a half; unemployment rose to 13 million, or about one in four of the labour-force; and unused capacity of industrial plant was estimated at 50 per cent. While in some European countries a moderate recovery took place in the middle and late 'thirties, partly under the stimulus of rearmament, in America production took about eight years to recover to the pre-crisis level, only to relapse in the fresh setback of 1937-8; while unemployment did not drop below eight million until 1940, save for a short period during 1937. It is hardly surprising that there was widespread talk at the time of capitalism having reached a stage of chronic stagnation, when in Marx's famous phrase capitalist ownership had become a fetter upon the further development of the productive forces.

There have been all kinds of theories propounded to

explain why all this happens—theories which I do not intend to examine here. For our present purpose we must confine ourselves to this general statement (with which many if not most of these various theories would agree): that this cycle is to be regarded as essentially a cycle in the process of capital accumulation, and the periodic breakdown occurs because the continual urge towards the accumulation and investing of capital outruns the conditions that determine what profit the increased capital can earn. This is what Marx meant when he spoke about expansion of capitalist production coming into contradiction with the conditions for extracting and realising surplus-value.

Let us suppose that the processes of production were governed purely by social aims, namely the increase in material welfare of the *whole* of society. Then of course an all-round expansion of production would have no limit short of the complete satisfaction of human wants. Investment of labour and resources in an expansion and improvement (in a technical sense) of the means of production would go on so long as there was room for raising productivity and for more products. Until this point had been reached, a market could always be found for more production either by lowering selling prices or by raising money wages. It is true, of course, that certain *proportions* would have to be observed; and there might be difficulties at any one time because expansion had got out-of-line and had gone too far in some directions and not far enough in others. But this would be a reason for some marking time while others caught up, not for a *general* arrest of expansion all along the line, let alone for a contraction.

But under capitalism, investment of capital in new means of production takes place under the expectation of a certain rate of profit. If it happens, when expansion has been going on for a time, that this expected rate of profit fails to be realised, new investment will fall off, perhaps altogether; and as expansion stops, there will be a stoppage of orders for new machinery etc., and there will be unemployment and under-capacity working in those industries which make machinery and so-called capital goods (means of production), which will spread the shrinkage of demand to the products of other industries, thereby making the decline general and cumulative. Said Marx: "The capitalist mode of production meets with barriers at a certain scale of production. . . . It comes to a standstill at a point determined by the production and realisation of profit, not by the satisfaction of social needs."

To see how the process works, let us look a little closer at what happens during an ordinary boom. In order to do so it is convenient to make use of the distinction made by Marx between two main Departments of industry, one producing *capital goods* or means of production for use both by itself and by other industries, the other making *consumer goods* for eventual sale through the shops to individual consumers. These he called respectively Departments I and II. (One could, of course, complicate this by dividing these into various sub-departments: for example, dividing I into (*a*) production of capital goods for use in I itself, e.g. machine-tools to make machine-tools, (*b*) production of capital goods for use in II, e.g. spinning and weaving machinery or shoe toe-lasters; also dividing II into (*c*) making consumer goods for wage-earners, (*d*) making luxury goods for consumption by capitalists and their hangers-on. But the simple division into two sectors will do for our purpose, at the level at which we are talking about things.)

During the boom investment increases, and with it the demand for products of Dept. I. With greater demand goes greater employment, and both total wages and total profits grow, which in turn reinforces demand for the products of both Departments. As, however, the increased capital goods produced by Dept. I are delivered and installed in the form of new plant and equipment, the productive capacity of both sectors of industry is increased—and is the more increased the more intense has been the investment boom. At this stage a number of things may start happening, one of which

is that this increase of productive capacity outruns the increase of demand. As soon as this happens, the rate of profit (i.e. profit per £ of capital invested) will start to fall; and as soon as the profitability of new investment falls, new investment will decline and with it the demand for the products of Dept. I, thereby starting the downward spiral of falling demand, employment and output.

Evidently this must happen at *some* point, since consumers' demand can scarcely go on growing indefinitely and is bound to slacken at some stage, for the reason that the growth of demand of which we spoke just now was due to increased employment (and hence increased wages and profits) and such an increase has its limits. At some stage it must bump up against the ceiling of full-capacity working or full employment. Actually most booms come to an end *before* full employment is reached.* Even if wages rise in face of rising demand for labour, this will tend to raise costs as much as it boosts demand, and so will not of itself serve to raise *profitability*, which is the crux of the matter.

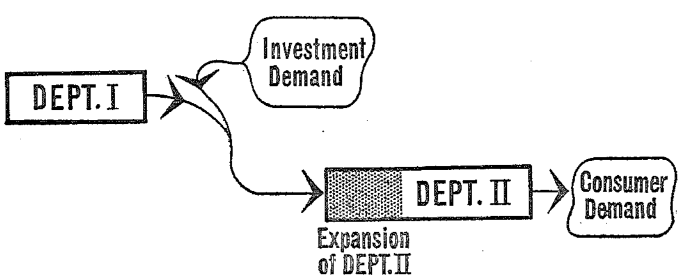
Now this is one way, possibly a very frequent way, in which the boom is halted—by productive capacity in Dept. II outrunning demand for products of Dept. II. It is sometimes expressed in the statement that the boom breaks because productive power outruns consuming power. Now if 'consuming power' is taken here to mean *personal* consumption of individual wage-earners (with their families) and capitalists and others, then this does not tell the whole story. The boom *may* break in this way, and probably often does (e.g. some think the 1929 crisis in the U.S.A. came in this way), but it *need not* always do so. The statement about 'productive power outrunning consuming power' is only complete if we take 'consuming power' in the sense in which we have spoken of 'demand' above, meaning *demand for*

* Although not necessarily before various kinds of 'bottleneck' in productive capacity or in supplies appear in particular places.

*products of both Departments.** In other words, we have to look at what is happening in Dept. I *as well* as in Dept. II; and the expansion of the former is not necessarily *limited* by what is happening in the latter, even if it is generally influenced by the latter a good deal.

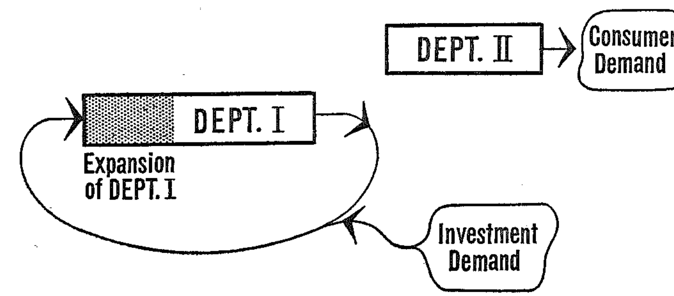
About Dept. I, making capital goods, two questions arise: (1) Could it not happen that all, or a major part, of the investment on which a boom is built goes into expanding Dept. I, and not at all (or very little) into Dept. II; in which case productive power in the latter would not outrun demand from individual consumers, and there would be no excess capacity in Dept. II to check the boom? (2) Could not investment then go on smoothly for quite a long time, maintaining the boom at a steady rate by keeping up the demand for capital goods and hence employment and activity in Dept. I? If employment were kept up in Dept. I, the demand of those employed there for consumer goods from Dept. II would also keep the latter ticking-over quite happily, and there would be nothing to start a downturn.

The position could be depicted thus. In the first case we were considering things went in this way:



* The early economists, including Marx, in fact used the term 'productive consumption' to refer to demand for Dept. I, as well as personal consumption (=demand for Dept. II); although it is doubtful whether, when he spoke of 'consuming power', Marx meant in all contexts both of these things.

But in the second case about which we have just been talking it would be like this:



Although it is difficult to imagine such a process continuing indefinitely, it is quite true that this kind of thing can happen for a time and can be an influence prolonging a boom. There must presumably be some solid reason why investment plumps for Dept. I if the process is to go on at all long: capitalists must have some reason for expecting the demand for capital goods to continue to expand. Such a reason might be a crop of new inventions or a technical revolution, opening the prospect of extensive replacement of plant and equipment by new within the space of a few years, boosting the demand for capital goods so long as such innovation lasts. But for this boost to demand for Dept. I to last very long, there would need to be, not one technical revolution, but a continuing (and cumulative) series of them—not just a once-for-all step-up in demand for capital goods but a *continuing* rise in this demand; otherwise investment in expanding Dept. I would quickly reach a limit and begin to taper off. Clearly the chance of such a self-expansion of Dept. I exerting more than a fairly short-lived influence on the cycle is very small.

It is this possibility to which Lenin was referring when he pointed out (in his *Development of Capitalism in Russia*, Chap. I) that the expansion of Dept. I was not limited by the demand for Dept. II (personal consumption), but could proceed to a certain extent independently of the latter; further that it was a "general law of capitalist production" that Dept. I should grow *faster* than Dept. II because of the tendency of capitalism constantly to revolutionise technique. We shall see in the next section how this has a bearing on what has happened in the boom which followed the Second World War.

It may be noted that a large armament programme has just this effect of sustaining (and while it is on the upgrade expanding) demand for products of Dept. I; moreover doing so without necessarily expanding productive capacity in any direction, either in Dept. II or in Dept. I—expanding only the capacity for slaughter and devastation. It is for this reason that an arms race and war are apt to prolong a boom and 'distort' the normal trade cycle pattern. A public works programme may have a similar effect; but such programmes are generally of much more limited scope than armament ones, and the willingness of capitalist governments to finance them very much less (short of unusually strong popular pressure and fears of revolution).*

Even should a boom be sustained for a time in the way we have mentioned, it is likely to run into difficulties in various ways before very long.

Firstly, it is hardly conceivable that *none* of the current investment should be directed towards Dept. II; and in so far as some is, productive capacity here will expand, if more slowly, and is likely at some stage to outrun the increase of personal consumption (however much attempts are made to boost the latter by advertising new products, hire-purchase and salesmanship ballyhoo).

Secondly, even when investment is going into expanding Dept. I, it is increasing the total stock of capital (or means of production) on which profit has to be earned. Unless,

* As may have operated in the later 'thirties during the American 'New Deal' under Roosevelt.

therefore, surplus value increases in step, the *rate* of profit must be adversely affected and further investment discouraged. It is possible that if population is growing very fast and the industrial reserve army is inexhaustible, this may happen: more machines are installed to be manned by equivalently more labour, each additional man producing as much surplus-value as those who were there before him. (In these circumstances, of course, there will be room for Dept. II to expand also at the same pace as Dept. I, in order to meet the growing consumers' demand from the rising wage-bill and rising profit-total.) But this is a rather unlikely situation, at least in developed industrial countries where, as we have seen (above, p. 40), capital accumulation tends to grow faster than the labour supply. If the stock of capital outruns the reserve army of labour, then the resulting competition for labour is likely to bid up wages, which will eat into the surplus left over for capital.

Thirdly, let us suppose that, to avoid this eventuality, the new capital equipment is made of a more labour-saving type than the old. In this case the demand for labour will not increase in step with the stock of capital equipment, but at a lower rate. Each worker will have more capital equipment 'behind his elbow'. But this, again, is only consistent with an unchanging rate of profit if at the same time productivity per worker is rising sufficiently, and in such a way, as to increase the share of the value produced that goes to capital* so as to offset the higher ratio of capital to labour.

The well-known economist Kaldor once said that a boom was like "a peculiar steeplechase, where the horse is bound to fall at one of four obstacles": he thinks "it is probably a rare horse which survives until the last hurdle".

I believe that the right way of looking at economic crises is to regard them, not as the inevitable product of any one particular form (or aspect) in which the essential contradiction

* Marx's 'rise of relative surplus-value': see Chapter IV.

of capitalism appears (that between the developing forces of production and profitability for capital), but rather as an expression of this basic contradiction which may manifest itself in a variety of particular forms. It is accordingly possible that different booms may break, not for the same, but for different reasons (so far as proximate or immediate causes are concerned); and what this particular reason is can only be discovered by studying the concrete circumstances and sequence of events of the boom in question.

Throughout this section we have been talking as though foreign trade did not exist and the country in question produced only for the home market and not for export. In any concrete situation, of course, we have to remember that some part of output (in the case both of Dept. I and Dept. II) is produced to meet foreign demand. Hence as long as exports are being expanded, demand is being expanded. But it has also to be remembered that other countries are not going to continue for long buying additional goods from the country in question without selling more to it in return. It follows that the boost given to a boom will be no more than temporary unless the exports supplied to other countries are *on credit*, or on loan, since only then is a permanent export-surplus possible. At any rate the simplified picture we have given is not so far wrong when we are speaking of the capitalist world as a whole.

VI. SINCE THE SECOND WORLD WAR

A modern war is of such a kind as to require all-out mobilisation of economic resources, rapidly executed decisions about transfers of labour and productive equipment and the growth of a war industry, which the ordinary market-mechanism would be powerless to achieve. Consequently it occasions a considerable growth of State Capitalism in the form of State control of finance, of labour, of prices, of allocation of materials, while the State becomes a principal buyer in the market, placing its contracts for armaments and

munitions and supplies for the army and even supplies of essential foodstuffs for the population. This happened in the Second World War to a greater extent than in the First.

The all-out production drive of wartime and the mobilisation of manpower for the services depletes the industrial reserve army and brings about a condition of full employment such as is rarely reached in peacetime even in boom years. To prevent this from leading to large wage-increases, the State imposes various kinds of restriction on trade union action and on labour generally—suspension of the right to strike, restriction on the movement of labour and change of job. Nevertheless, since class relations become tense under these conditions, appreciable concessions have to be made to the working class such as in peacetime would hardly be tolerated. At the same time Big Business is associated more closely with the operation of controls over industry (e.g. allocation of materials and of orders), and in a number of directions the large monopolies acquire powers to organise small-scale business under their leadership beyond what they would have in normal circumstances.

It is not surprising, therefore, that in most countries the working class should have emerged from the Second World War in an unusually strong position (only to be weakened soon afterwards by carefully engineered divisions and splits, political and industrial). On a world scale the existence of an expanding socialist sector ("socialism become a world system") was evidently having a significant impact in numerous ways upon the capitalist sector. In several countries (notably France and Italy) Communists for a time participated in post-war governments, occupying certain Ministerial posts—until they were jockeyed out of office by the growing pressures of the cold war. In Britain in the post-war General Election of 1945 a Labour Government was returned; and this retained many of the wartime economic controls for some years for purposes of post-war reconstruction, instead of dismantling them quickly as had happened after the First World War in 1918. Continued also were some of the controls over labour, such as the prohibition of strikes under Order 1305 (until 1951 when it was repealed). By nationalising coal, railways, gas, electricity, road transport and steel, as well as the Bank of England (but not the other banks), it increased the sphere over which the State exercised direct control, especially as regards investment. However, the extent of this control should not be exaggerated; so far as State operation of production is concerned, the nationalised sector represented only about a fifth of all means of production in the economy as a whole. Where it had more importance was in increasing the weight of the State as a buyer, especially of capital goods (since the nationalised sector had large investment programmes and accounted for a disproportionate slice of all investment in the post-war decade). If we include housing, the State sector accounted for something approaching a half of gross investment in the post-war years. If we add defence expenditure to this, we reach a figure for State expenditure on commodities (largely products of Dept. I of which we were speaking above) amounting to between a sixth and a fifth of the national income. Even in U.S.A. the size of armament expenditures has given to State expenditure a sizable influence over the economy as a whole; total government purchases of goods and services amounting to one-fifth of the gross national product and in some years to nearly a quarter. Some have claimed that this is a new feature that makes for a greater degree of stability in the system than existed at any time before; and there has been a good deal of talk about State expenditures as 'built-in stabilisers' which can be operated to counter slumps in private investment.

Whatever one's view may be about this last point, one can, I think, say that the extension of State Capitalism was a leading feature of the Second World War and after. This is not to represent this development as something entirely new: it had occurred during the First World War and, although dismantled immediately after, there had been some recrudescence of State control during the crisis years of the

'thirties. But the period of the Second World War can be regarded as something of a watershed in this respect. In speaking of this we must bear in mind, however, what was said about the State at the end of Chapter III: that at a stage of history where such a high concentration of economic power is reached as is the case under monopoly capitalism, the State machine becomes an instrument of the dominant monopoly groups; and it is for this reason that Marxist writers generally speak, not just of State Capitalism (which may appear in other historical contexts) but of State *Monopoly* Capitalism. In this respect there is no evidence that the situation has undergone any *fundamental* change: indeed, the war, as we have said, apparently witnessed a closer association than before of monopoly groups with the State machine; and the mere presence of Labour Ministers in Downing Street or even a Labour majority in the House of Commons does not of itself suffice to transform the character of the State machine, its personnel and the class interests that dominate it.

Since this has been a matter of some controversy, another qualification should perhaps be made. To say that the State is an instrument of monopoly and tends to further its interests even when these conflict with that of other capitalists is not to exclude the possibility that the State may at times pursue policies that operate in the interest of the *system as a whole*—in the sense of trying to keep capitalism as a mode of production operating on an even keel. Here indeed is one of the leading contradictions of the situation—between a sectional interest maximising its own gain in a way that is disruptive of the system as a whole, and the perpetuation of that system. To the extent that the State takes measures designed to ensure the latter, it may temporarily appear in the role of an 'independent' mediator, 'reconciling' sectional interests within the ruling class, or even at times of acute class tension seeking to mollify antagonism between classes and to 'reconcile' them. But with the basis of the mode of production and of the State what it is, the extent to which this can be done, and still more the chance of success in doing this, is strictly limited.

If we look at capitalism on a world scale, we are struck at once by a second feature of the post-war situation. This is the extent to which former colonial or semi-colonial countries, under the flag of national independence, have shaken themselves free from imperialist domination and taken a road towards political and economic independence. China, which has joined the socialist camp, is the leading example of this. India, Burma and Egypt, which have remained essentially capitalist (though undeveloped) countries, are other examples. Economically this has meant a concerted attempt at development, particularly development of industry, independently of foreign capital (at any rate of foreign capital with strings) and under the stimulus and guidance of State 'development plans'. As was to be expected, this could not fail to have important repercussions on the older imperialist countries, especially Britain, affecting profits drawn from foreign investment and the terms of trade between the industrial goods which they export and the agricultural and other primary products which they import in return. U.S.A. has remained less affected by this than Britain (except as regards China and the Pacific), and has shown a tendency to extend her investments and control elsewhere on the American continent (Canada, Central and South America) and in the Middle East and Africa, especially as regards oil and some minerals. In these fields there have been signs of the older imperialisms such as Britain being elbowed aside and even squeezed out by the much richer and more streamlined Dollar Imperialism from what once was called 'the New World'.

It is in connection with the so-called 'third bloc' of countries, like India and the Arab Republic, that the impact upon capitalism of the growing socialist sector of the world has been most in evidence. For such countries the planned economies of the socialist sector not only afford an example of successful and unprecedentedly rapid development towards

industrialisation, but also provide increasingly a source of supply of technical advice and capital goods; in this respect presenting an alternative focus of attraction and of influence both politically and economically.

A third feature of the post-war situation has been the unexpected continuance of boom conditions for twelve years up to 1957 (with minor breaks in 1948-9 and again in 1952 in Britain, 1953-4 in America). After the First World War a short-lived post-war boom had broken after a year and a half; and following some recovery in the middle 'twenties in this country (and a stronger boom in U.S.A.) came the second and more severe crisis of 1929. By contrast the dozen-year stretch of 1945-57 showed a remarkably sustained level of activity, employment and investment, with unemployment in Britain most of the time well below 2 per cent (in U.S.A. rather higher but mostly below 4 per cent); and industrial production increasing over the period by nearly a third in Britain and about a half in U.S.A. This prolongation of the boom-phase of the cycle gave rise to talk about economic crises being things of the past and capitalism having learned how to make prosperity permanent.

For the peculiar character of the post-war cycle to date there are several explanations. In the immediate post-war years demand was sustained by the size of the reconstruction needs for repairing the unparallelled destruction of the war, for replenishing depleted stocks of goods and catching up on the backlog of normal repair and replacement of plant and equipment. Although America did not suffer directly from the war, and indeed increased her capital stock considerably, industry in America as well as in Europe was fully occupied in meeting reconstruction needs under the various 'aid programmes'. For several years most things were in short supply, consumer goods and capital goods alike. When there were signs of supply catching up on demand in 1949, there came the Korean War with its steep rise in American arms expenditure and stockpiling of 'strategic goods'. But although such war expenditure lifted the boom to a new level, it was not solely responsible for the recovery from the 'recession' of 1948, which had already started some months previously.

With the end of the Korean War, however, a new break in the boom occurred in U.S.A. towards the end of 1953. At the time many people assumed that this was the end of the post-war boom, which had been abnormally prolonged by government expenditures during the Korean War period, and that another 1929 was on its way. To the surprise of most, however, investment by private persons and businesses showed surprising resilience,* even in face of a 'tapering off' (and even slight decline) of government defence expenditure; and before the end of the next year a new investment boom was to start and to continue for two to three years. This was mainly a boom in re-equipment and new construction by industrial corporations, public utilities and the like, which increased productive capacity in manufacturing by some 13 per cent. In Britain these were also years of fairly high investment activity (restrained only by the government's restrictive monetary policy), as it was also in capitalist countries of Western Europe, especially West Germany; and productive capacity of British manufacturing industry has been estimated in 1958 as 10 per cent higher than three years before.

A possible explanation of this boom, which the writer has advanced elsewhere†, is that the 1950's were witnessing one of those technical revolutions of which we have spoken several times, and which with its urge to modernisation and extension acted as a powerful boost to investment. In fact, we may have been in precisely that kind of situation of which we spoke at the end of Chapter V. This period of technical

* Actually, what decline of investment there was during the recession (sending unemployment up for a time to nearly 6 per cent) was mainly investment in stocks of goods and not in plant and equipment; and personal expenditure on consumption showed surprising steadiness. Unlike the recession of 1948-9, this one had no appreciable impact on other countries.

† *Marxism Today*, Dec. 1957.

innovation was associated with the crucial stage in the development of the productive forces which we have come to know as automation.* Already about the time of the First World War there started a series of changes in productive technique to which the name of 'mass production' was loosely applied, and with which the large increases in labour productivity and the rapid increase of capital goods production in American industry in the 'twenties were evidently connected. This may be regarded, I think, as a kind of threshold-stage to the automation of the 'fifties. The latter carried the former a crucial stage further: not merely mechanisation of handling and movement of the job-in-process by a moving assembly-line, but the transfer of detailed control over productive operations to the machine by the use of modern electronic devices and feed-back mechanisms. We may find that this has been a period of a qualitative 'leap' or transformation of the productive forces, with more drastic effects on production and production-relations than were noticeable at the time.

In the discussions that there have been about post-war capitalism, both inside the Labour movement and outside, many have argued that the changes in capitalism have been so great as to transform it completely—even to render it no longer capitalism as traditionally known. One American writer has even written a book called *The Twentieth Century Capitalist Revolution.* Just as during the boom of the mid-1920's some people were so intoxicated by the situation as to talk glibly about 'the American century' of unlimited economic progress, so again in the 1950's they have written of

* It may be noted that in the 'fifties output has expanded faster than employment in Britain, U.S.A. and West Germany alike; output per head of those employed rising in Britain by about 12 per cent between 1950 and 1956, in U.S.A. by 16 per cent and in W. Germany by as much as 35 per cent (see T. Balogh in *Oxford Economic Papers*, June 1958, pp. 220, 228). It also has to be remembered that consumption-demand was expanding over this period owing to full employment: for example, real wage-earnings may have increased between 1947 and 1957 by about 15 per cent in Britain and much more in U.S.A.

capitalism and its 'free enterprise' system as an engine of continuous technical innovation which has now learned to be crisis-free. Even within the Labour movement in this country such talk has been echoed, if in a somewhat lower key. For example, in the *New Fabian Essays* we find Mr. Crosland stating: "It is now clear that capitalism is undergoing a metamorphosis into a quite different system and that this is rendering academic most of the traditional socialist analyais" (p. 35). Mr. Strachey in his *Contemporary Capitalism* does not go as far as this, but says that "a new and distinct stage of our extant economic system, namely capitalism, now exists in the advanced industrial communities", in which "the laws of development of the older stage of the system no longer fully apply to the new stage". (pp. 25-6).

Apart from tendencies to State Capitalism of which we have spoken (which, although admittedly important, are not of such crucial importance as to justify talk of 'transformation' or a 'new stage'), two main reasons have been adduced to justify such claims.

Firstly, we have the so-called 'Managerial Revolution' that is said to have occurred in recent decades. Talk of this derives from a much-quoted book of that title by an American, James Burnham; the burden of which was that power was already passing (during the inter-war period) out of the hands of capitalists into the hands of a new class of salaried managers at the head of large industrial and financial corporations, these managers owning little if any capital in the companies whose policies they controlled. In support of this was quoted the well-known investigation by Berle and Means into the ownership of the 200 largest corporations in U.S.A., with its evidence about the considerable divorce of ownership and control and the prevalence of so-called 'minority control' (control by persons owning no more than a small fraction of the share capital). While it is true that such divorce has gone a long way and that there are lots of 'absentee capitalists', many more no doubt than in the last century,

it is pretty clear that the extent of this has been much exaggerated and that the divorce is far from complete. Even if there is 'minority control' (as there often is), it does not follow that control is in the hands of *non*-capitalists, still less that these controllers form a distinct class or that their policies are steered by other than profit-making motives. Actually a reworking of the Berle and Means material in a report of the Temporary National Economic Committee has shown that the number of cases where control was in the hands of persons with a negligible shareholding interest was considerably smaller than had often been supposed.* And in this country Prof. Sargant Florence, on the basis of a study of 85 of the largest firms, after saying that "on average in large companies twenty shareholders out of some ten to twenty thousand hold, in America and Britain, nearly a third of voting shares", concludes that "there is certainly evidence for believing that the managerial revolution has not proceeded as far as is sometimes thought (or stated without thought) and that leadership and the ultimate decision on top policy may remain in many companies or corporations with the largest capital shareholders."†

Secondly, there is the so-called 'Income Revolution', whereby income is said to have been redistributed radically in favour of the workers. As we have seen in Chapter I and Chapter IV, it is true that since the 1930's the share of wages has improved, both absolutely and relatively, but by surprisingly little considering the exceptional circumstances of wartime and after, and certainly not by enough to justify grandiloquent talk of 'income revolution'. What is often quoted as showing a large change is the share of wages in *personal* incomes. This, as we have seen, omits undistributed profits, which are evidently part of capitalists' income in a *class* sense and have risen considerably since the war. The

* T.N.E.C. Memo. No. 29, 56-7, 104 seq. Paul Sweezy discusses the whole matter in his *The Present as History*; also the present writer in *Studies*, pp. 350-1.

† *The Logic of British and American Industry*, p. 193.

share of wages in national income has risen since before the war by no more than three percentage-points; the share of the top 1 per cent of income-receivers (roughly 200,000 families) in total personal incomes *plus* undistributed profits fell between 1938 and 1947 only from 20 per cent to 19 pre-tax (from 15 to 11 *after* tax), and that of the top 25 per cent only from 60 per cent to 57 pre-tax (from 55 to 49 *after* tax). As regards the *lower* half of all incomes, this scarcely rose at all pre-tax, and even in terms of income *after* tax only rose from 27 to 30 per cent.* In U.S.A. the share in total income of the lowest three-tenths of income-receivers actually declined.†

The figures which show a fall in the share of the larger incomes indeed probably overstate this fall, since they do not take account of capital gains and expenditure from them; nor do they take account of the growing post-war habit of charging substantial expenditures to 'expense accounts'. In judging American figures of this kind one has to remember that both tax-evasion and expense accounts are specially important qualifications over there.

The basis of much of this talk about a transformed or reformed capitalism began to crumble when the American boom started to break in the late summer and autumn of 1957. If a new slump were to occur, deeper and more stubborn than the minor setbacks of 1948 and 1953, this would demonstrate, surely, that capitalism as a system of production was at bottom much the same as it had been in the 'thirties. To-date the signs are only beginning to appear of its spreading to Europe;‡ but in America the position can be briefly summarised as follows. The index of industrial production fell from a peak level of 146 at the end of 1956 (1947-9=100) to 130 by the spring of 1958, i.e. by almost 11 per cent or by appreciably more than in either 1948-9 or 1953-4. With the appearance of substantial excess capacity at the beginning of 1957 investment plans were scaled downward, and by the beginning of 1958 steel output had fallen to 50 per cent of full-capacity output. Consumers' expenditure had also begun to fall, especially the demand for durable consumers' goods sold on hire-purchase; and unemployment has gone above 5 million. What is specially significant (despite official propaganda about the corner having been turned) is that business plans for investment in fixed capital are still falling, apparently, and are likely to continue to do so into the coming year (1959).* The *Economic Bulletin for Europe* of the Economic Commission for Europe of the United Nations (Vol. 10, No. 1) has cautiously said that "the present recession . . . appears to exhibit the main characteristics of a typical business downturn". Whether this downturn proves to be short-lived or stubborn, another dramatic 1929 or merely Dr. Sweezy's "creeping stagnation", it is pretty clear that talk about capitalism having outlived the trade cycle was premature, to say the very least. There seems every reason to conclude that the basic features of capitalism as we defined them in Chapter I remain, despite all attempts to hide them or to conjure them away.

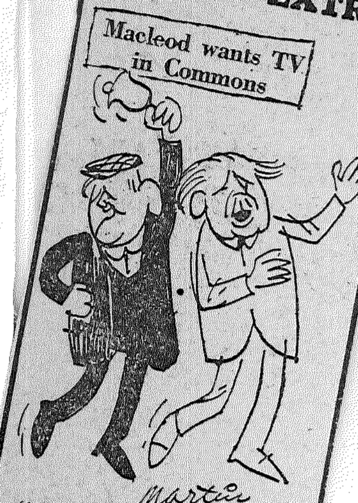
* Dudley Seers in *Bulletin of the Oxford Institute of Statistics*, September, 1949, p. 262.

† Gabriel Kolko in *Universities and Left Review*, No. 2.

‡ In Britain at the time of writing there is already some decline in orders for machine-tools and for steel and ships and in industrial construction; all indicating a downturn in investment. There is also evidence of spare capacity in metals and engineering of as much as 20 per cent. At the July O.E.E.C. meeting in Paris there was an official warning that the effects of the American slump were "quite likely to hit Europe" soon.

* Excess capacity at the beginning of 1958 (as a result of new investment since 1955 and recent declines in activity) is estimated by the *Economic Bulletin for Europe* (Geneva, Vol. 10, No. 1, pp. 44-5) at between 20 and 25 per cent, and the probable total of private fixed investment for 1958 as 14 per cent less than in 1957.

SUNDAY EXTRA



"The Tory Party means Happy Government, Happy Government, Happy Government.
"The Tory Party means Happy Government,
"Look for the Tory sign. . . ."
"Okay, Quintin, that's all for rehearsal today."