In the 1970s capitalism entered a new stage. There were fluctuations in income and employment during the long boom of the 1950s, 60s. But the overall trend was for rapid economic growth. Since 1970 fluctuations such as the present crisis take place within an overall trend to relative stagnation. Why? The explanation is important for the immediate policy area and for the future of capitalism. In today’s conditions more people see the need for change.

I begin with Marx’s explanation of economic crisis. The impact of changes in capitalism since 1867 are discussed later.

Marx on contradictions and crises

For Marx, the compelling force in the capitalist mode of production is the production of surplus value (profit) on an ever expanding scale. Surplus value becoming money capital, must be reinvested. The saving-investment process is central to expansion, and to the accumulation of huge quantities of extremely efficient instruments of production. At times this process leads to long booms. But, overall, the capitalist system is unplanned and motivated by private profit; so at other times the saving-investment process leads to periods of stagnation such as in the 1930s and the 1970s, and economic crises as at present. The same factors explain short term fluctuations, and long-term or secular trends.

Two basic features of the capitalist mode of production are pursued in order to increase the rate of profit, and thus the accumulation of capital. They are interrelated; together they create a barrier to the accumulation of capital at its earlier rate.

The first trend is described by Dean Jorgenson, a Harvard economist:

"Traditionally businessmen faced with investment decisions have chosen to emphasise spending on machines and other capital equipment over manpower.” The capitalist mode of production has brought about an unplanned expansion of “the productive powers of society”. We know that with computers, etc. this process is continuing at an accelerating rate.

The second trend, implied above, is that because of greed for accumulation and profit, capitalists have always attempted to restrict the rate of growth in wages and salaries: human needs are a cost in the capitalist mode of production.

But this is only the first “act” in the process of capitalist production. After surplus value has been produced the whole product must be sold profitably or the capitalist will lose a part or all of the capital. Surplus value must be “realised” through profitable sales.

The conditions under which surplus value is produced become a barrier to continued expansion. At the point of production, expanding productive capacity means that an increasing volume of goods and services is thrown onto the market if available resources are fully utilised. This requires a rapidly expanding market. But greed for accumulation also ensures that wages and salaries will rise less rapidly than investment and productive capacity. Wages and salaries are the basis of consumer spending which, in turn, is the largest item in the demand for goods and services.

It follows that after the initial stimulus which accompanies investment, consumer demand will rise less rapidly than productive capacity and output. Again, as much of the output of the capital goods industries is produced to increase productive capacity in the consumer goods industries any continuing decline in the rate of increase
in consumption spending will reduce the demand for capital goods as well.

Marx sums up: "But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the condition of consumption rests". Here, Marx had in mind the trade cycle where booms have always led to crises of over-production expressed in an "excess" of persons, an "excess" of capital, and an "excess" of goods.

With the experience of the early 1930s, and from a very different standpoint, Keynes was concerned with a much more serious problem for the future of capitalism than the trade cycle. He argued that with laissez-faire capitalism, the millions of unemployed in the 1930s reflected a chronic contradiction which had developed between productive capacity and consumption.

Both Marx and Keynes argued that if expansion is to continue in a capitalist economy there has to be a parallel development of the major sectors of the economy such as productive capacity (investment) and consumer demand. They agreed that given private enterprise, productive capacity will expand much more rapidly than consumer demand thus leading to "excess" capacity. Marx saw Capital's exploitation of labour as the basic reason for this contradiction. Are there contradictory rates of development between productive capacity and consumption in the postwar period? If so, does this help to explain short-term fluctuations in income and employment and the development of the new stage in capitalism after 1970?

Short term fluctuations: the trade cycle

The trade cycle with recovery and boom followed by crisis and recession has always been a feature of capitalism.

At the April Economic Summit a clash developed among employers with mining and banking interests taking a hard line based on reduced wages to restore profits while the embattled manufacturing industry were sympathetic to an expansionary policy and were willing to compromise on wages.

Why?

Statistics in Table A for two of the seven cycles since 1949-50 help to answer this question, with 1952-53 and the September quarter 1982 (for 1982-83) being the crisis years.

A glance at Table A shows that in both cycles investment outlays, for example on machinery, are bunched together, and at very high levels in the recovery-early boom phase of the cycle. Thus gross private investment (GPI) increased by 18 percent in 1949-50 and 17 percent in 1980-81. These sharp increases in productive capacity required parallel increases in demand. In fact in 1949-50 consumer demand rose by 6.3 percent while in 1980-81 it rose by only 3.7 percent. One reason for the relatively slow growth in consumer spending was the slow growth, relative to GPI, in average earnings — 1.3 percent in 1949-50 and 4.7 percent in 1980-81. And these are pre-tax earnings!

Why the actual crisis? In the pre-crisis year productive capacity is still positive so productive capacity is at its peak. But in this year there is always a decline in the rate of increase in consumer spending (see column 3 in Table A on this point).

Column 7 in Table A shows that the decline in the rate of increase in consumer spending in the pre-crisis year is partly due to the decline in the rate of increase in average earnings in that year. In their attempt to maintain profit levels Column 8 shows the CPI as rising sharply in the pre-crisis year — a factor in the decline in the rate of increase of average earnings and consumer spending in the pre-crisis year.

The result of high levels of productive capacity and a decline in the rate of consumer spending in the pre-crisis year could only be an unplanned increase in the level of stocks — see Column 6 of Table A. Excess capacity relative to demand precipitated the 1952-53 crisis and with a decline in the overseas demand for Australian minerals the crisis of 1982-83.

Hence the relevance of the ALP's pre-election economic program to "embrace the policies of expansion" — and the danger in policies that put the emphasis on "sacrifice" in areas of human need.

Stages in the development of capitalism

We now come to the long term stages in capitalist development. The second world war brought the 1930s depression to an end. The war was followed by the long boom of the 1950s and 60s. Four economic crises during this period showed that there were still tendencies to over-production. Why the overall expansion? In the 1950s and 60s there were offsetting factors to the trend in monopoly capitalism to stagnation. Post-war reconstruction, a larger government sector, and for Australia rapid industrialisation and high levels of migration were the basis of the overall expansion during the long boom. Particularly in the USA rising arms expenditure absorbed much of the "surplus" that arises with the capitalist economy.
countries consumer spending averaged productive capacity by much more than equipment in 1970 would have increased 70.73% of GDP in 1950 and 60.2% of £lm. spent on capital equipment in 1950. Because of advances in technology, probably much greater than shown in the table: because of advances in technology, Australia shows similar trends in these variables. (Thus these years saw a vast increase in productive capacity in Australia, particularly in manufacturing. What of demand for the product? In 1948-49 Australia’s consumer spending was 70.73% of GDP. After 1948-49 there was a continuing decline in this percentage to 60.53% in 1970-71.) How important was this decline in consumer spending as a percentage of GDP? In 1970-71 Australia’s GDP was $33,649 million. If consumer spending was still 70% of GDP (as in 1948-49) then consumer spending would have been 70% of $33,649 million — or $23,554 million. In fact consumer spending in 1970-71 was $20,402 million. So the decline in consumer spending as a percentage of GDP in those years meant a decline in consumption by 1970-71 of $3,152 million. To get this decline in perspective, consumer spending in 1970-71 was 70% of GDP. After 1948-49 Australia’s consumer spending was still 70% of GDP (as in 1948-49) then consumer spending would have been 70% of $20,402 million. So the decline in consumer spending as a percentage of GDP that was approximately equal to the value in 1970-71 of Australia’s primary and mineral production. South Korea is of special significance because it is representative of the newly industrialised countries. Multinational corporations are often seen as planning a new international division of labour with manufactures transferred progressively to low wage, high technology third world countries. Table B gives some idea of the reality behind this “planning”. Between 1953 and 1976 investment for South Korea increased from 8% of GDP to 26%; in the same period consumer spending declined from 82% of GDP to 65%. This is the typical, if exaggerated, pattern of capitalist development. Assuming only a home market, the only outcome of this pattern of development would be overproduction. The multinationals anticipated this result and Table A: Rates of increase in GDP, gross private investment, etc at constant prices 1949-50 and 1980-81 — September quarter 1982. Usually the columns show percentage increase over previous year.

<table>
<thead>
<tr>
<th>Year</th>
<th>% increase real GDP</th>
<th>% increase cons’ptn spending</th>
<th>% increase gross private investment</th>
<th>% increase employment</th>
<th>% Increase in stock levels average</th>
<th>% increase earnings</th>
<th>% increase consumer price index</th>
<th>Company income as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>7.4</td>
<td>6.3</td>
<td>18.0</td>
<td>3.2</td>
<td>48</td>
<td>1.3</td>
<td>8.4</td>
<td>11.80</td>
</tr>
<tr>
<td>1950-51</td>
<td>5.3</td>
<td>7.2</td>
<td>18.9</td>
<td>4.5</td>
<td>156</td>
<td>5.4</td>
<td>13.0</td>
<td>13.04</td>
</tr>
<tr>
<td>1951-52</td>
<td>2.9</td>
<td>-1.1</td>
<td>4.9</td>
<td>1.2</td>
<td>421</td>
<td>0.3</td>
<td>22.5</td>
<td>11.39</td>
</tr>
<tr>
<td>1952-53</td>
<td>-1.1</td>
<td>-2.2</td>
<td>-7.7</td>
<td>-3.2</td>
<td>-306</td>
<td>0.2</td>
<td>9.4</td>
<td>10.61</td>
</tr>
<tr>
<td>1980-81</td>
<td>3.7</td>
<td>3.71</td>
<td>17.0</td>
<td>2.6</td>
<td>552</td>
<td>4.74</td>
<td>8.8</td>
<td>12.26</td>
</tr>
<tr>
<td>1981-81</td>
<td>3.0</td>
<td>2.45</td>
<td>13.0</td>
<td>1.2</td>
<td>910</td>
<td>3.03</td>
<td>10.7</td>
<td>11.51</td>
</tr>
<tr>
<td>Sept. qr ’82</td>
<td>-0.6</td>
<td>-0.6</td>
<td>-6.5</td>
<td>0.1</td>
<td>-118</td>
<td>0.5</td>
<td>3.5</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Table B: Rates of increase in investment and consumption during the long boom in various countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Investment as % of GDP</th>
<th>Consp’tn as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 OECD countries</td>
<td>1950</td>
<td>18.0</td>
<td>70.73</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>23.8</td>
<td>60.20</td>
</tr>
<tr>
<td>Australia</td>
<td>1948-49</td>
<td>26.09</td>
<td>60.53</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>17</td>
<td>61.00</td>
</tr>
<tr>
<td>Japan</td>
<td>1950</td>
<td>35</td>
<td>51.00</td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>26</td>
<td>65</td>
</tr>
<tr>
<td>South Korea (2)</td>
<td>1953</td>
<td>8</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td>1976</td>
<td>26</td>
<td>65</td>
</tr>
</tbody>
</table>

(1) Australia’s gross private investment as a percentage of GDP increased from 11.48 (1948-49) to 17.35 in 1970-71.
(2) South Korean exports rose from 2% of GDP in 1953 to 3% in 1960 and 36% in 1976.

Source: Statistical Year Book of the UN, 1944 and 1975 editions.

mode of production.
Table B gives the basis for assessing whether disproportionate rates of growth in productive capacity and demand during the long boom were a major contributing factor to the end of the long boom and the relative stagnation of the 1970s—80s.

Table B shows that during the long boom there were significant increases in productive capacity. Thus, for the 24 OECD countries investment rose from 18% of GDP in 1950 to 33.649 million. If consumer spending was still 70% of GDP (as in 1948-49) then consumer spending would have been 70% of $33,649 million — or $23,554 million. In fact consumer spending in 1970-71 was $20,402 million. So the decline in consumer spending as a percentage of GDP that was approximately equal to the value in 1970-71 of Australia’s primary and mineral production. South Korea is of special significance because it is representative of the newly industrialised countries. Multinational corporations are often seen as planning a new international division of labour with manufactures transferred progressively to low wage, high technology third world countries. Table B gives some idea of the reality behind this "planning". Between 1953 and 1976 investment for South Korea increased from 8% of GDP to 26%; in the same period consumer spending declined from 82% of GDP to 65%. This is the typical, if exaggerated, pattern of capitalist development. Assuming only a home market, the only outcome of this pattern of development would be overproduction. The multinationals anticipated this result and
hence placed emphasis on developing "export zones" for manufacturers in Asian countries. South Korea's exports increased from 2% of GDP in 1953 to 36% in 1976. The growth in exports on this basis of superexploitation could only increase the excess capacity problems in the industrialised countries including Australia.

A further example will illustrate this point. Table B shows that capital formation in Japan increased from 17% of GDP in 1950 to 35% in 1970 — it more than doubled. This was a basic factor in the Japanese 'miracle' of rapid economic growth of the 1950s-60s. Over the same years consumer spending for Japan declined from 61% of GDP to 51%. The contradiction between the rapid expansion of productive capacity and the decline in consumption as a percentage of output has helped to bring the Japanese miracle or rapid economic growth to an end. The search for markets has contributed to Japan modifying her rigidly anti-communist stand in regard to China and the USSR. At present, Japan's GDP is increasing in real terms at about 2% a year.

In summary, Table B shows productive capacity as expanding much more rapidly than consumer demand. Four recessions during the long boom showed the tendency to overproduction. During the 1950-60s "offsetting factors" to this tendency, such as rapid industrialisation and the expansion of government sector were dominant. With the scaling down of the Viet Nam war around 1970 the contradictions leading to long-term relative stagnation again became dominant.

'New' and 'Old' factors which led to the present stage of capitalism

There are significant differences between the competitive capitalist of Marx's day, the monopoly enterprise of the 1930s and the multinational corporation of today. Capital has become international in its operations while retaining a "base" in developed countries such as USA. Examples of this are seen in capital moving offshore to industrialise low-wage Third World countries, General Motors world wide car with its threat particularly to the Australian component parts industry, and "tax havens" to escape company tax. The multinationals seek to control each economy in their interests. Thus at the April Summit a clash developed among employers, mining and banking interests, headed by Sir Rod Carnegie, took a hard line based on reduced wages to restore profits, and reduced levels of protection for Australian manufacturing industry. The embattled manufacturing industry, and small business interests, were prepared to compromise on wages and they were sympathetic to a more expansionary policy. They know from experience that the central problem is excess capacity relative to demand.

Thus the multinationals introduce "new" contradictions. But they remain capitalist enterprises. As such they exacerbate the "old" contradictions. Thus on the supply side they have the vast resources to accelerate the development and use of advanced technology. Expanding productive capacity requires an expanding market. But on the demand side the multinationals use their power to resist the rate of growth in wages and salaries, assisted in this by inflation. Apart from measures to advance their interests, they favor "small government". It is shown above that in the monopoly-multinational stage of capitalism you get periods of stagnation such as the 30s and today — as well as the trade cycle.

It is important not to ignore, or to exaggerate, the significance of the "new" factors:

We now come to the long term stages in capitalist development. The second world war brought the 1930's depression to an end. The war was followed by the long boom of the 1950s, 1960s. Four economic crises during this period showed that there were still tendencies to over-production.

*on capital moving offshore between 1963 and 1976 exports of manufactures from Third World countries increased from 5.9% to 8.26% of the world export of manufactures. But in the same period the share of OECD countries in the world export of manufactures increased from 80.49% to 82.76%. The production and export of manufactured goods is still centred in the industrialised countries such as the USA. Increased exports from low wage, high technology Third World countries can only increase the gap between productive capacity and demand in the industrialised countries. The problems of the Australian clothing, textile, footwear industries illustrate this point.

*The decline in employment in Australian manufacturing industry is often attributed to special features of the Australian economy such as small market and a high cost structure — or to capital moving to the more profitable resource area. These are factors in the relative decline in Australian manufacturing industry.

At the same time it has to be noted that in the OECD area the numbers employed in manufacturing declined from 74.8 million in 1974 to 71.1 million in 1977 — a decline of 3.5 million in three years. West Germany and Japan have been amongst the leaders in economic growth and the application of advanced technology. In both cases the decline in employment in manufacturing has continued into the 1980s. Measures to increase research in Australia and development of new industries are to be welcomed — particularly if there is union participation. But the decline in employment in manufacturing in industrialised countries, including those most advanced, throws doubts on theories that concentrate on the special features of Australian manufactures only and see increased international competitiveness as the way out.

The implications of the present stage of capitalism

What of the future?

We are at the beginning of a new technological revolution. This gives society a choice. With private profit as the aim, experience already indicates that technological advances will result in mounting social problems, the most obvious of which is rising levels of unemployment.

Today a series of intermediate demands and movements in areas such as social wage, education, child care, poverty, quality of life issues relevant to the environment, urban renewal, concern about the results of work — raise issues that are important in themselves, consistent with the present and future level of development of the productive forces, and point in the direction of a society in which the motive force for productive activity will be the meeting of human needs.

NOTES:

1. This treatment is based on K. Marx, Capital, volume 3, Ch. 15, particularly pages 238-240. (Progress Publishers, Moscow 1977.)

2. P. Samuelson, Economics, 11th ed., p. 204. (On p. 189 Samuelson has a table showing consumption as a percentage of national income declining from 88.9% in 1929 to 78.2% in 1978!)

3. OECD, The Impact of the Newly Industrialising Countries on the Production and Trade in Manufactures, p. 19