Have the Economic Contradictions of Capitalism been Solved?

MARX SHOWED that there was a basic contradiction between social production and the private (capitalist) ownership of the means of production and of the product. As a result of this contradiction, in the long run the social relations between workers and capitalists become a barrier to the development of the productive forces. The 1929-39 economic crisis and depression was seen by many as establishing Marx's basic proposition beyond any reasonable doubt.

In the last 30 years, however, there have been increases in the living standards of the majority of people in countries with developed economies. There have been rapid rates of growth in countries such as Japan and West Germany. Since Marx's time, among the basic changes that have taken place have been a growth of monopoly, new forms of imperialism and a growth of the governmental sector and state controls in the economy. Keynes' *General Theory* (1936) gave a theoretical base for the growth of the public sector and controls, seen by him as necessary for the continuance of capitalism. Do these developments mean that the Marxist analysis is dated? Can we expect a long period of growth under capitalism?

It is often argued that the task of regulating the economy is made easier by the creation of "consumer societies." Acceptance of stability and growing affluence underlies the view held by some that the working class has been integrated into the capitalist system, and that for revolutionary change we must look to forces outside the normal employer-worker relations. The central question to be discussed here is: "Has the modern monopoly-imperialist State solved the economic problems of capitalism?"

**GROWTH OF SURPLUS: PROPENSITY TO CONSUME**

Modern marxists, such as Sweezy, base their analysis on the growth of surplus. As an extreme case of monopoly, the BHP illustrates why surplus grows with monopoly capitalism — as a monopoly BHP is a price maker. It has the resources to reduce costs. In these conditions the growth of surplus is inevitable. One

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way of regarding the question of the share of the working people in the product is to ask: "What are the trends in the propensity to consume?"* Because of its class character, a mature capitalist economy has two basic trends — surplus and productive capacity tend to expand rapidly, while on the other hand the long-term trend of the propensity to consume is for it to decline.

A. The Propensity to Consume

Keynes thought it probable that in wealthy countries the propensity to consume would fall as income rose. I believe that the tables below illustrate a law of development of the industrialised capitalist countries studied, which can be stated in these terms: in general, and in the long-run, as income grows the propensity to consume declines. Because of the importance of consumption this is one major reason for the long-term instability of a capitalist economy.

TABLE 1: Showing trends in the propensity to consume.

(a) USA

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross National Product (GNP) $ Thousand millions</th>
<th>Consumption (C) Thousand millions</th>
<th>Propensity to Consume = ( \frac{C}{X} \times 100 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>103.1</td>
<td>77.2</td>
<td>74.8%</td>
</tr>
<tr>
<td>1939</td>
<td>90.5</td>
<td>66.8</td>
<td>73.8</td>
</tr>
<tr>
<td>1949</td>
<td>256.5</td>
<td>176.8</td>
<td>68.9</td>
</tr>
<tr>
<td>1959</td>
<td>483.7</td>
<td>311.2</td>
<td>66.6</td>
</tr>
<tr>
<td>1968</td>
<td>865.7</td>
<td>536.6</td>
<td>61.9</td>
</tr>
<tr>
<td>1969</td>
<td>932.1</td>
<td>576.0</td>
<td>61.7</td>
</tr>
</tbody>
</table>

This means that consumption absorbed 74.8\% of USA's GNP in 1929; consumption absorbed 61.7\% of GNP in 1969.

(b) England

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP $ Thousand millions</th>
<th>(C) Thousand millions</th>
<th>Propensity to consume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>5.2</td>
<td>4.4</td>
<td>84.9%</td>
</tr>
<tr>
<td>1948</td>
<td>10.5</td>
<td>8.6</td>
<td>81.8</td>
</tr>
<tr>
<td>1958</td>
<td>20.4</td>
<td>15.4</td>
<td>75.3</td>
</tr>
<tr>
<td>1966</td>
<td>32.4</td>
<td>24.1</td>
<td>74.2</td>
</tr>
</tbody>
</table>

* The propensity to consume is the proportion of income or product that goes to consumption. Keynes first used the term. Consumption is seen here as depending primarily on the level of income and the distribution of income.


(c) Australia

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP $ Thousand millions</th>
<th>(C) $ Thousand millions</th>
<th>Propensity to consume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938-39</td>
<td>1.8</td>
<td>1.3</td>
<td>70.3%</td>
</tr>
<tr>
<td>1948-49</td>
<td>4.5</td>
<td>2.9</td>
<td>64.6</td>
</tr>
<tr>
<td>1958-59</td>
<td>12.5</td>
<td>8.0</td>
<td>64.0</td>
</tr>
<tr>
<td>1968-69</td>
<td>27.1</td>
<td>15.7</td>
<td>57.8</td>
</tr>
<tr>
<td>1969-70</td>
<td>30.2</td>
<td>17.4</td>
<td>57.6</td>
</tr>
</tbody>
</table>

(d) Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP Thousands of millions of Yen</th>
<th>(C) Thousands of millions of Yen</th>
<th>Propensity to consume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>7,792</td>
<td>5,087</td>
<td>65.2%</td>
</tr>
<tr>
<td>1958</td>
<td>11,342</td>
<td>6,891</td>
<td>60.8</td>
</tr>
<tr>
<td>1962</td>
<td>20,863</td>
<td>11,417</td>
<td>54.7</td>
</tr>
<tr>
<td>1968</td>
<td>52,780</td>
<td>27,478</td>
<td>52.0</td>
</tr>
</tbody>
</table>

One finds periods when income is rising but propensity to consume changes very little, e.g. Australia 1948-49 to 1958-59; USA 1951-1964. But the long-term trend — pre-1939 compared with the present time, is quite clear.

It follows that before 1939 in the first three countries studied, about three-quarters of the product went to the consumer. Today, the proportion is down to three-fifths and it is still falling. In Japan just over half of the product goes to the consumer. While there have been vast increases in the levels of consumption in the countries studied, the proportion of the product going to consumption has declined. In view of the key role of consumption we now have to examine how is it possible to have had:

- Increases in surplus and in productive capacity.
- A decline in the propensity to consume over the same period and much lower levels of unemployment compared with the 1930's.

B. Factors off-setting the fall in the Propensity to Consume

The product must be sold. The question thus becomes: In which

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direction has spending increased since 1939 to compensate for
the higher productive capacity and the fall in the propensity to
consume? There must be an off-setting factor or the capitalist
world would be plunged into mass unemployment. In the discus-
sion that follows reasons for growth in countries such as Australia
will be discussed. But the main emphasis will be on the US.
The reason for this is that the US is a mature capitalism. Rapidly
developing countries such as Australia are likely to meet some
of the same economic problems when they reach the same level
of development if they are based on a capitalist framework. Again
the present monetary crisis illustrates how conditions in the United
States affect the rest of the capitalist world.

Why have there been much higher levels of employment since
the 1930's? Developing countries such as Australia are a special
case. Here the off-setting factors are increased private investment
and the growth of the government sector of the economy. Migration
is a factor here. Overseas investment in Australia gives a short-
term expansion e.g. in minerals, at the cost of longer-term disposal
of assets to overseas interests. In a growing economy, growth
encourages investment, and thus further growth. The re-equipping
of the Japanese economy since 1950 has been a major factor in
its growth.

A structural change from consumption to private investment is
not possible in a developed economy such as that of the US. Thus
gross private domestic investment was 15.7% of the GNP in 1929;
13.1% in 1940 and 14.8% in 1964 (Shapiro: Macroeconomic
Analysis p.123). In the US what has offset the growth of
productive capacity in the last 30 years (associated as it has been
with a decline in the propensity to consume), has been the growth
of government spending.

Thus government purchases of goods and services increased from
8.2% of GNP in 1929 to 22.7% in 1969. The main single factor
in this rise has been the increase in military spending from 0.7%
of GNP (1929) to 8.8% of GNP (1969). Lipsey estimates that if
the US reduced its defence spending “over-night” to 1940 levels,
then unemployment might rise as high as 25% of the labor force.5
Joan Robinson develops the view expressed here when she says
that “the effect of his (Keynes’) argument is to explain why it is
that modern capitalism flourishes when governments are making
investments in armaments.” In doing so they are creating demand
and employment. J. Robinson concludes: “The cure, most of us
would agree, is even worse than the disease.”6

5 Lipsey: An Introduction to Positive Economics p. 659.
It follows that in the US the increased propensity to save (implied in the reduced propensity to consume) has been offset mainly by government investment in armaments. It was not a change in thinking towards Keynesianism that ended the depressed years of the 1930's. In the US the number of unemployed was still 19% of the workforce in 1938. In 1944, after three years of war, the figure was only 1.2%.

**THE US ECONOMY 1960-70**

There were three quite distinct phases in the US economy in the 1960's.

1. 1958-64

Military spending was very high in this period. For example it was $45,900,000,000 or 9.3% of the GNP in 1960, compared with 0.7% in 1929. Despite this the period saw a sharp rise in unemployment — the number of unemployed averaged 5.8% of the workforce, whereas in the preceding seven years the average number of unemployed was 3.6% of the workforce. This indicated that the problem of selling the product was becoming more acute in the early 1960's.

2. 1965-first half of 1969

The economic effects of US military spending in the period 1965-69 are shown in the following table:

**TABLE 2: The US economy, 1960-69, some relevant figures.**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unemployed (thousands)</td>
<td>3,852</td>
<td>3,360</td>
<td>2,857</td>
<td>2,975</td>
<td>2,817</td>
<td>2,746</td>
</tr>
<tr>
<td>(March)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage unemployed</td>
<td>5.5</td>
<td>4.5</td>
<td>3.8</td>
<td>3.8</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Defence expenditure $ thousand millions</td>
<td>46</td>
<td>50</td>
<td>57</td>
<td>70</td>
<td>80</td>
<td>81</td>
</tr>
<tr>
<td>Federal Budget Deficit $ thousand millions</td>
<td>+0.2</td>
<td>-1.6</td>
<td>-3.8</td>
<td>-8.8</td>
<td>-25.2</td>
<td>-2.9</td>
</tr>
<tr>
<td>Consumer Price Index (base 1957-59=100)</td>
<td>103.1</td>
<td>109.9</td>
<td>113.1</td>
<td>116.3</td>
<td>121.2</td>
<td>127.7</td>
</tr>
</tbody>
</table>

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1 Samuelson: *Economics* p. 191.
8 Ibid. p. 191.
10 Surplus indicated by + and deficit by −.
The cause of the accelerated rate of military spending from 1965 was, of course, the war in Vietnam, which in 1968-69 accounted for about one-third of US military spending. Between 1965 and 1969 the number of US unemployed declined by 614,000, despite an increase in the workforce. Corporate profits were $66,800,000,000 in 1964 and $92,200,000,000 in 1968. Each year of the Vietnam war has seen a budget deficit, as high as $25,200,000,000 in 1968.

The transfer of resources to war, financed in part by deficit budgeting, plus administered prices, explains the sharp increase in inflation from the first year of the extended Vietnam war to today. Thus, the Consumer Price Index rose from 109.9 to 127.7 in the four years 1965-69. Social problems mounted in this period. Thus 26,100,000 US citizens are described as living in poverty in 1967 (13.4% of the population), and an even larger number lived in near-poverty. Thus in 1967 one in four Americans lived in or near poverty.

3. Mid-1969 to present day

Signs of a recession appeared in the USA late in 1969. Central features are set out in the table below.

TABLE 3. The US Economy 1967-71

<table>
<thead>
<tr>
<th>Year</th>
<th>Total unemployed (thousands)</th>
<th>Percentage unemployed</th>
<th>Defence expenditure $ thousand millions</th>
<th>Federal Budget Deficit $ thousand millions</th>
<th>Consumer Price Index (base 1957-59=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>2,975</td>
<td>3.8</td>
<td>70</td>
<td>-8.8 (est.)</td>
<td>116.3 (Aug.)</td>
</tr>
<tr>
<td>1968</td>
<td>2,817</td>
<td>3.6</td>
<td>80</td>
<td>-25.2 (est.)</td>
<td>121.2 (Aug.)</td>
</tr>
<tr>
<td>1969</td>
<td>2,846</td>
<td>3.5</td>
<td>81</td>
<td>-2.9 (est.)</td>
<td>128.7 (Aug.)</td>
</tr>
<tr>
<td>1970</td>
<td>5,146</td>
<td>6.2</td>
<td>79</td>
<td>-22 (est.)</td>
<td>136.0 (Aug.)</td>
</tr>
<tr>
<td>1971</td>
<td>5,085</td>
<td>6.1</td>
<td>73</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The 1965-69 boom was caused by the sharp rise in military spending, financed in part by deficit budgets. By mid-1969 the period of expansion of the US economy on this base had come to an end. There were two reasons for this. The Vietnam war

\[11 \text{Statistical Abstract of US 1969, p. 328.}\]
had led to mounting inflation (see Table 3 above). There was a real fear that the US was heading towards a financial and economic crisis. This led to restrictions on the rate of increase in the money supply, credit restrictions and higher interest rates. More importantly, the nature of the war and military defeats caused widespread hostility to the level of military spending. In 1970 and 1971 there was some reduction in the level of military spending.

Table 3 shows that the economy soon moved into a recession with mounting levels of unemployment. In 1970 real GNP actually declined, and figures for May 1971 (the latest available) showed unemployment at 6.2% and inflation at an annual rate of 7.2%. In the Monthly Review (April 1971) Sweezy estimates that in December 1970, unemployed and those in defence-related employment came to a total of 22,300,000 — 25.1% of total labor force. Sweezy concludes that the figure of 25.1% is somewhat higher than the highest-ever officially recorded unemployment figure of 24.9% in 1933. Because of the areas in which spending has been reduced reports indicate that growing unemployment is no longer confined mainly to unskilled workers, Negroes and youth. The rate of increase of unemployment is much the same for black and white, skilled and unskilled workers.

The Australian Financial Review of April 14, 1971, writes that the Japanese economy is "in search of a boost" and further: "We (the Japanese—Ed.) are caught in a genuine depression." The possibility of this development was indicated in Table 1 (d) above which shows for Japan a steady fall in the propensity to consume. The Japanese growth rate of 7% is still high, but the recession has already led to a scaling down in demand for some Australian minerals and short time for some Japanese workers in growth industries such as electronics.

TRENDS IN MODERN CAPITALISM

In the most highly-developed capitalist State — the US — the tendency of a modern capitalist State towards stagnation is quite clear. Major reasons are the growth of surplus and productive capacity on the one hand and the long-term trend to a fall in the propensity to consume. The trend to stagnation can be delayed for long periods. The development of new resources and industries in Australia, expansion of old industries, capital inflow and high rates of migration have led to a growth of the economy. These factors could not operate in a mature economy such as that of the US, where military spending has been the main factor in masking (to a degree) the trend toward stagnation.
INTERNATIONAL MONETARY - TRADE CRISIS

Since writing the above the monetary-trade crisis in the United States has forced the Nixon Government to announce a number of measures including a ten per cent surcharge on most imports and an end to the US undertaking to convert dollars into gold. Since 1945 there has been a vast expansion of trade between the capitalist countries, helped by the relative stability of the dollar which became the currency through which these countries have settled their debts. Attempts have been made to reduce tariffs.

Thus the decisions of the Nixon administration represent the end of an era. The economic crisis in the United States has forced measures reminiscent of the exchange depreciation-high tariff policies of the 1930's. The basic reason for the import surcharge is that the market cannot absorb the vast volume of goods produced by US, Japan, the EEC and other countries. Countries such as Japan and West Germany — with more rapid rates of development — are eating into the American market. The US monetary crisis is made more severe by the war in Vietnam and the attendant inflation plus the high levels of US investment overseas — another drain on dollar reserves.

Total US reserve assets — including gold — were $13.5 billion in June 1971. The US balance of payments deficit was $10 billion in 1970 and at an annual rate of $23 billion in the first half of this year. In these circumstances the monetary-trade measures were inevitable. In effect the US is pursuing the policy followed by the Japanese in the 1930's — exporting unemployment. The import quotas and forced revaluation of other currencies will give a short term advantage to the US at the expense of exports of countries such as Japan, West Germany and Australia. The monetary-trade crisis is thus a result of the deepening crisis of capitalism seen in the growing problem of finding markets, and Vietnam. Restrictions on trade reduce the volume of trade. They invite retaliation. For this reason the measures taken by the US will have the overall effect of deepening and widening the crisis of capitalism.

CONCLUSIONS

Since 1939 the economic contradictions of the US have been obscured primarily by military spending; the contradictions have not been solved. What is happening in the US is not a trade cycle of the 19th century type. There can be fluctuations within the general framework of stagnation. That the basic trend is to stagnation is shown by the growth of unemployment before 1965
and since 1969. The USA is entering a new era. The economy can no longer rely on continued increases in military spending which in any case is contributing to instability. If President Nixon's proposed visit to China takes place, it will be difficult to maintain the present level of military spending.

It is often argued that military spending can be replaced by spending on education, health, slum clearance and anti-pollution measures. But to see this transfer as a simple process is to ignore the realities of the class nature of capitalist society. Military spending is promoted by the ruling US circles primarily to promote political ends. It is highly unlikely that these circles would have willingly consented to continued huge budget deficits and heavy taxation for ends such as slum clearance. Thinking in terms of their own narrow interests, the great monopolies see such things as education as a cost with no profit margin. Galbraith points out that the technology of industrial giants such as General Dynamics DuPont and General Electric is more suited to weaponry and space research than to building hospitals.

The real answer to the contradictions discussed is the complete overthrow of the capitalist system, followed by a socialist society in which there will be workers' (people's) control and maximum individual and group initiative. In capitalist countries we must have a policy now linking the present with the socialist future. The first thing is to get popular realisation of the possibilities for "the quality of life" when man controls modern technology for human ends.

The crisis of capitalism calls for bold policies now around questions such as education, environment, living standards, etc. It is in this context that the fight can be developed for workers' control. Bold policies must lead to action aimed to achieve them. The objective is not a more humane and efficient capitalism. If the left forces link the movement suggested with the need for revolutionary change, then the growth of the movement — and the conflict with the predatory interests of capital — will play a vital role in developing socialist consciousness.