

Theories of Regulated Capitalism

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THEORIES of "REGULATED CAPITALISM"

(A Collection of Articles)

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M o s c o w

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F O R E W O R D

Criticism and refutation of bourgeois economic theories constitute a most important element in the struggle against bourgeois ideology.

Bourgeois views concerning the economics of present-day capitalism enjoy wide currency not only among the bourgeoisie and petty bourgeoisie, but are also disseminated among sections of the working class through the activities of Right-wing socialists. Such theories are propagated on a wide scale in capitalist countries. Illusions are fostered to the effect that mass unemployment and economic crises of overproduction are things of the past, that a "fundamental" change has taken place in property distribution—namely its "diffusion" and "democratisation", that present-day bourgeois states aim to promote "the general welfare", etc. This illusion is built up on the conscious ignoring and distortion of the most important and basic feature of contemporary capitalism, its most profound economic roots—monopoly rule. Diverse economic theories, found in bourgeois literature, subserve only one general aim—the justification and embellishment of present-day capitalism in order to dull the workers' class-consciousness, to undermine their activity and will to struggle in defence of their rights and freedom.

One of the major means of embroidering the picture presented by contemporary capitalism is to laud economic intervention by the bourgeois state.

In the period of pre-monopoly capitalism, that is, up to the turn of the century, apologists of capitalism relied in the main on glorifying the inner strength of capitalism. The overwhelming majority of bourgeois economists claimed that free competition constituted the best automatic regulation of production. Crises and unemployment were presented as accidental disturbances in the operation of the "ideal" capitalist mechanism. Government interference in the economy was regarded by most bourgeois economists as an evil to be kept to a minimum.

This "rosy" theory turned out to be completely bankrupt in the unprecedentedly sharpened social and economic contradictions of the period of the general crisis of capitalism, a period in which the world capitalist economic system was falling apart. Under these conditions, it became impossible to conceal such catastrophic phenomena as economic crises and mass unemployment. Bourgeois economists were forced to recognise that the automatic operation of the inner forces of capitalism could not eliminate crises and unemployment. They had to renounce the previous approach adopted by apologists of capitalism. They had to provide a new emphasis, glorifying not the inner forces of capitalism but the role of the bourgeois state as a saviour of the capitalist economy. Apologia for state interference in economic affairs became one of the major trends in modern bourgeois political economy.

The appeal to the state as a force capable of promoting the normal development of the capitalist economy represents in itself a clear indication of the crisis gripping present-day bourgeois political economy.

History shows that the bourgeoisie made broad use of state intervention in the economy at the dawn of capitalist development, the period of primitive capital accumulation. No sooner had a material and technological basis consistent with capitalism been established and the bourgeoisie firmly entrenched than it repudiated the old forms of state intervention which were characteristic of

the mercantilist period, and went over to a policy of *laissez-faire* and free trade. The opposition of classical political economy to state interference in the economy was a reflection of the confidence of the bourgeoisie that it could conduct its affairs perfectly well without recourse to state assistance. The advocacy of a *laissez-faire* policy reflected confidence in the superiority of the economic laws of capitalism which were realised in the spontaneous competition of capital and operated independently of the state's economic policy.

In the epoch of imperialism and the general crisis of capitalism the bourgeoisie reappraised the state's economic function. Opposition to state intervention was replaced by a call for greater intervention. This reappraisal is a mark of weakness rather than strength. It indicates that the bourgeoisie no longer considers itself capable of surmounting its economic difficulties alone but must resort to extraordinary measures.

Present-day economic theories represent an attempt to harmonise bourgeois political economy with the conditions of state monopoly capitalism. It is a direct reflection of the considerably enlarged function of the bourgeois state. However, bourgeois economists completely misrepresent this real tendency. They conceal the basic and decisive fact—connection between the growing state interference in the economy and the all-powerful capitalist monopolies. The apologists are silent about the use of the state machinery by monopolies to intensify the exploitation of workers at home and abroad. They avoid any reference to the use of the government budget by the financial oligarchy as an additional source of high monopoly profits by means of taxes and subsidies. Moreover, they gloss over such typical imperialist practices in foreign expansion in dependent countries as the imposition of oppressive credit terms and harsh conditions of trade, as well as the wresting of other concessions and privileges.

The present-day ideologists of capitalism attribute to the bourgeois state a function entirely alien to it—the management of the whole economy. They sow the illusion among the masses that the state is called upon to correct “the inadequacies” of the automatic operation of capitalist mechanism. Thus, the American economist, H. Patton, sets the following task for the state: The government must take upon itself the function of compensating for the inadequacies of the private economy by such activities of its own as increasing its debt through spending and the investment of larger amounts than may be obtained from its current income.¹ Bourgeois economists especially emphasise that the state must make up for the deficiency of purchasing power with respect to production by way of increased expenditures. John M. Clark, for example, writes: “... if private spending is insufficient,” the most obvious and simple method “is for government to fill the gap by spending more.”²

Many bourgeois ideologists believe that the state must underwrite the losses sustained during crises and, in general, those resulting from capitalist anarchy of production. The American economist, George Steiner, in a special work on the government’s role in economic life, points out that a most important function of the bourgeois state is the “socialisation of risk.” By this he means the “assumption by government rather than individuals of risk associated with the operation of the economic system.”³

Bourgeois ideologists paint a completely distorted picture of state interference in the economy. The aim of such intervention, according to them, is to eliminate unemployment, to achieve “full employment”, to reduce prop-

¹ H. Patton, *The American Economy*, 1953, p. 365.

² J. M. Clark, *Guideposts in Time of Change*, New York, 1949, p. 105.

³ G. A. Steiner, *Government’s Role in Economic Life*, New York, 1953, p. 137.

erty inequalities, and to fight against monopolies. State intervention is represented as a means of "perfecting" capitalism, removing its contradictions, and "transforming" it into a more equitable social system.

Bourgeois economists set great store by state economic regulation to overcome crises of overproduction. They draw up all kinds of pet projects to combat crises. In their wishful thinking, they portray the "elimination" of economic crises as the main "achievement" of present-day capitalism, which presumably differentiates it fundamentally from the capitalism of the past. They proclaim the arrival of a new era of "crisis-free" capitalism. A critique of the theoretical propositions on which the various anti-crisis programmes are based is presented by R. Khafizov in an article entitled "A Critique of Some Basic Propositions Underlying Theories of 'Regulated Capitalism'".

In addition to the threat posed by overproduction crises, present-day capitalism is confronted with the problem of inflation. Public figures in bourgeois life are torn between two forces, to use the expression of the American economist Alvin Hansen—between the Scylla of crises and the Charybdis of inflation. At different times—depending on economic circumstances—anti-crisis programmes and anti-inflationary programmes are alternately given top priority. A critique of bourgeois theories of inflation and anti-inflationary programmes is provided by I. Osadchaya in her article entitled "The Problems of Checking Inflation as Dealt with by American Economists."

Money circulation and the government budget are given great prominence by bourgeois economists in their programmes of action. They place special stress on increasing government expenditures to compensate for the insufficient demand of private individuals as a basic way of combating economic crises. Questions pertaining to currency and budgetary policy are at present given the highest priority. Hansen, for example, defines monetary and

fiscal policy as a "steering gear" of modern society.¹ The monetary and fiscal programmes put forward by bourgeois officialdom reflect the most important contradiction between the bourgeoisie and the proletariat, the contradictions between individual capitalist groups, as well as between imperialist states. A concrete analysis of such programmes, e.g., in Britain, is given in the article by D. Smyslov entitled "Fundamental Conceptions of British Bourgeois Economists Regarding Monetary and Financial Questions in Britain Today".

Theories justifying the necessity for state regulation of the economy have been given wide currency in various capitalist countries and have become the dominant trend in contemporary bourgeois political economy. They reflect the general features of present-day capitalism and in particular, the social and economic contradictions, the increase in chronic undercapacity production and mass unemployment, the sharpening of economic crises of over-production, chronic disturbances in money circulation and the fantastic growth in militarisation.

Theories of "regulated capitalism" bear the imprint of the specific historical conditions of the particular country involved.

Thus, for example, such theories had their own special development in France. As a result of the peculiarities of its historical development, state monopoly capitalism in France made its appearance later than in other leading capitalist countries. A considerable increase in the growth of state monopoly capitalism in France took place only after the Second World War. In connection with this, the development of theories of "regulated capitalism" or "dirigisme", as it is called in France, as an independent trend occurred in France later than in Britain and the United States. The French version of these theories is

¹ A. H. Hansen, *Monetary Theory and Fiscal Policy*, New York, 1949, p. 183.

analysed by A. Pokrovsky in the article entitled "The Essence of *Dirigisme* in Present-Day Bourgeois Political Economy in France".

The theories of "regulated capitalism" represent one of the most important ideological means of deceiving the masses at the present time. Bourgeois propaganda seeks to persuade the working people that the government protects their interests and possesses the wherewithal for the solution of capitalist contradictions, for the organisation of equitable distribution and for the achievement of "general prosperity".

* * *

Although the articles in this collection were written separately and are not originally part of a single plan, they nevertheless complement one another and present in aggregate a critique of the theories of "regulated capitalism" which now predominate in bourgeois literature. A great deal of factual material is offered and a number of interesting theoretical observations have been drawn. It is hoped, therefore, that the present collection will be of interest and use to students, teachers, and researchers engaged in the study of the economics of present-day capitalism.

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**A CRITIQUE OF SEVERAL BASIC
PROPOSITIONS UNDERLYING THEORIES OF
"REGULATED CAPITALISM"**

*by R. Khafizov,
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Monopoly capital increasingly turns to the capitalist state for assistance—both economic and political—in its attempts, although temporary, to reconcile the contradictions of capitalism and cover up the obvious signs of its decay. Crises of overproduction are a dangerous threat to present-day capitalism. In the period of the general crisis of capitalism, they may assume such destructive proportions—as during the economic crisis of 1929-33—that they threaten the very existence of the capitalist system. This explains the reason for the broad dissemination in bourgeois political economy of the concept of regulating the chaotic economic life of capitalist countries.

The concept of “regulated capitalism” is usually linked with the name of the British bourgeois economist, J. M. Keynes. The Keynesian approach in bourgeois political economy is based on the necessity for active state interference in economic life and in the regulation of economic processes. Keynes, however, was original neither in his idea of regulation nor in his proposals. Bourgeois states had already begun to put into effect similar proposals during the First World War and afterwards, particularly in the thirties. The majority of his formulas were

included in Roosevelt's experiments in "planning", which were carried out in the period of the New Deal.

The basic aim of the Keynesian theory of "regulated capitalism" is to maintain capitalism by liquidating or meliorating its cyclical crises and their social consequences. Capitalism, according to Keynes, could be saved only through active state interference in economic life, the stimulation of production by means of state credit and tax policy and, in particular, by high government expenditures.

Keynesianism at the present time exercises great influence on the ideology and economic policy of capitalist countries. In the first place it is used as theoretical justification for the economic policy of the major capitalist countries—for their high military expenditures in peacetime. Secondly, Keynesian ideas have been widely disseminated among trade unions in such countries as the United States and Britain.

Let us turn to the theoretical justification offered by bourgeois economists for the various measures designed to regulate the economy.

In this analysis, we shall make use of the works of two outstanding contemporary American economists, Alvin H. Hansen and John M. Clark. This choice is based on the fact that their works, written in the post-war period, have the practical purpose of dovetailing present-day U.S. monopoly capital policy with the theoretical propositions of Keynesianism. It might be noted that the work of Hansen herein examined—*Business Cycles and National Income*—closely parallels Keynes' work, *General Theory of Employment, Interest and Money*, not only with regard to spirit and direction but also with respect to the manner of its theoretical construction.

What underlies the measures for regulating the economy advanced by bourgeois economists and carried out by the U.S. Federal Government? In essence, it is the popular concept of the business cycle as a cyclical fluctuation of

capitalist production, a succession of cyclical changes or a periodic deviation of the production curve above and below a level of "equilibrium". The bourgeois economist either does not or cannot see the contradictions of capitalist production; consequently, he denies the inevitability of crises as a form of movement of these contradictions. Therefore, he does not understand that the business cycle represents the movement of capitalist production from crisis to crisis, from the throes of one set of contradictions to another in succession; and does not simply represent a change from periods of high employment and industrial boom to periods of unemployment and industrial slump. The sharp rise and catastrophic fall of capitalist production with the onset of crises is reminiscent of the movement of a pendulum with a greater or smaller amplitude of fluctuation.

Hansen characterises this movement as follows: "The business cycle consists, then, of fluctuations in: (1) employment, (2) aggregate output, and (3) prices"¹ (wholesale and retail). He describes the cyclical movement of capitalist production as "the upward and downward movements which together make business cycles"², and as "the upswing and downswing movements of income, output, and employment. . . ."³

If the cycle is thus understood, then a crisis is not the most characteristic feature of capitalist production, but represents simply one of the phases of the cycle which is equal in weight to another. Such a conception completely dilutes the crisis, making it vanish into the cycle, which, moreover, is regarded as a simple alternation of cyclical changes. Hence, the crisis is looked upon merely as a regular cyclical change, as a "downward movement" following upon an "upward movement".

¹ A. H. Hansen, *Business Cycles and National Income*, New York, 1951, p. 4.

² Ibid., p. 17.

³ Ibid.

The crisis, however, is actually a decisive phase of the cycle, determining the character of the movement of capitalist production as a whole. Periodic crises are typical of capitalist production and signify that capitalist contradictions have reached the explosion point. During economic crises, these contradictions are reconciled for a short period by forcible means and, in this way, a form is created for the further movement of the contradictions, the exacerbation of which leads, in the course of time, to a new explosion, a new crisis, etc. Consequently, the crisis is the central phase of the cycle.

Moreover, it is precisely the cyclical character of capitalist production, called forth by crises, which are begotten by the contradictions of capitalism.

The erroneous conception of the economic cycle as the simple alternation of cyclical changes and of the dissolution of the crisis into the cycle stems from a lack of understanding of the reasons for the cyclical development of capitalism.

“The upward and downward movements which together make business cycles,” writes Hansen, “are commonly believed to be mainly associated with fluctuations in the volume of real investment.”¹

“The most general, all-inclusive statement of the essential character of cyclical movement is that they consist in an increase or decline, as the case may be, in the purchase of real investment goods. . . .”²

At first glance it may seem that Hansen correctly evaluates the relationship between the business cycle and

¹ A. H. Hansen, *op. cit.*, p. 17. Hansen distinguishes between “real” and “financial” investment. By the former term he understands capital investment in the production of new means of production and in the replacement of the value of used-up means of production. And by the latter term he means capital investment which involves the transfer of ownership of capital or income-yielding claims: government securities, corporate securities, or mortgages, etc.

² *Ibid.*, p. 18.

the dynamics of investment, i.e., the reproduction of fixed capital. However, this is not the case. Hansen does not correctly view the mutual relationship between cyclical fluctuations in capitalist production and the periodic mass renewal and construction of new machines, equipment, and other means of production. The main flaw in Hansen's theory consists in the fact that the mass renewal of fixed capital, which is a *derivative* of the economic crisis and subsequent depression, is dealt with as a *point of departure and primary cause* of cyclical fluctuations. As evidenced by the following quotations from Hansen, he sees the reason for cycles in the spasmodic reproduction of machinery, equipment, etc.

"... Thus it is the fluctuations in the rate of investment," writes Hansen, "that dominate and control the cycle"....¹

"... Thus it is to private investment and to government outlays that one must look in the main for an explanation of changes in employment and income,"² i.e., for an explanation of cyclical fluctuations in production.

Hansen clearly makes investment the *determining factor*. Fluctuations in investment, according to Hansen, are the cause of the cyclical movement of the process of capitalist reproduction.

The well-known bourgeois economist, Gottfried Haberler, who prepared a study under the League of Nations' auspices prior to the Second World War aimed at synthesizing bourgeois theories of cycles and crises, regards Hansen as a member of the school of "over-investment" theories, which explain crises as an excess of investment during the period of prosperity. "According to the over-investment theories," writes Haberler, "fluctuation in the rate of investment is the cause of the business cycle."³

Clark also supports this viewpoint. He feels that fluctua-

¹ Ibid., p. 290.

² Ibid., p. 123.

³ Gottfried Haberler, *Prosperity and Depression. A Theoretical Analysis of Cyclical Movements*, Geneva, 1941, p. 31.

tions in expenditures and demand are the basis of the cyclical development of capitalist production, and that these are caused by fluctuations in capital outlays. "The chief generating source of fluctuations," he writes, "is in capital outlays."¹

Let us assume, that this is actually the case, that fluctuations in the rate of real investment in the economy is the reason for the cyclical nature of capitalist production, i.e., the movement from depression to recovery, from recovery to prosperity, from prosperity to crisis, etc. Then the question arises: What are the reasons for these fluctuations, expansion or reduction of investment itself? Is it accidental that the rate of capital investment is also subject, more or less, to periodic fluctuations?

The theory of reproduction in Marxist political economy is based on the fact that, in social production, Department I producing means of production plays the leading role. Production grows chiefly on the basis of means of production, and not articles of consumption. The growth of means of production surpasses the growth of articles of consumption. Personal consumption develops under capitalism following productive consumption. But it plays one role in the production sphere, and another as the cause of the cyclical nature of capitalist production. The production of means of production is the most important link in the investigation of the capitalist production cycle. However, from the standpoint of causality of this cyclical nature, it is not the initial link. The cause of crises and cycles is to be sought in the laws and the contradictions of capitalist production, rather than in the peculiarities of reproduction of means of production.

Bourgeois literature, beginning with the Russian bourgeois economist M. Tugan-Baranovsky, has given wide currency to the view that capital investment is a self-contained factor, independent of consumption, in the capital-

¹ J. M. Clark, *Guideposts in Time of Change*, p. 97.

ist process of reproduction. From the empirical fact that, during the phases of recovery and prosperity, the production of machinery, equipment, etc., increases, and during periods of crisis, falls much more sharply than the production of consumer goods, bourgeois economists conclude that the causes of business cycles are hidden in the rise and fall of the rate of capital investment.

Not only the cycle theories of Hansen and Clark, but all Keynesian economic theories treat capital investment as the point of departure. Hence, this question must be examined in greater detail.

The concept of productive consumption independent of personal consumption was first advanced by Tugan-Baranovsky in 1894, in his master's dissertation "Industrial Crises in Present-Day England, Their Causes and Influence on the Economy". Proceeding from the Marxist scheme of reproduction, Tugan-Baranovsky declared that expanded capitalist reproduction was possible even in the event that personal consumption fell absolutely or even ceased completely. He felt that personal consumption could be replaced by productive consumption and that the production of articles of consumption could be replaced by the production of means of production alone.

"The constant reduction of social consumption together with the constant expansion of social production," wrote Tugan-Baranovsky, "is not capable of causing even the slightest derangement in the process of realising the products of capitalist production. . . .

"The expansion of production, the productive consumption of the means of production, by itself replaces human consumption. And all this occurs as smoothly as if the human being were a means of satisfying the demands of the economy, rather than the economy—a means of satisfying human needs."¹

¹ M. I. Tugan-Baranovsky, *Periodic Industrial Crises. The History of Crises in England. General Theory of Crises*, Russ. ed., Smolensk, 1923, p. 210.

"In general, there are no limits to the development of the capitalist economy other than the productive forces of society, inasmuch as capital in itself creates the market. . . ."¹

Tugan-Baranovsky grasped the proposition in the Marxist theory of reproduction of social capital concerning the more rapid growth of Department I (production of means of production) relative to Department II (production of articles of consumption), in that the market is created largely owing to the effect of means of production rather than articles of consumption. However, he did not understand that conditions for realisation under capitalism are limited not by the social productive forces and not by the absolute consumption capacity, but rather by purchasing power. Hence, on the basis of a correct assumption, he drew an extremely erroneous conclusion. Thus, he completely separated production from consumption, and thereby vulgarised Marx's theory of realisation.

Bourgeois economic thought thus gave currency to the concept of production as being independent of consumption. Precisely there lies the theoretical basis of modern bourgeois ideas which view capital investment independent of personal consumption as a self-contained factor in the process of reproduction, giving rise to cyclical fluctuations in capitalist production.

The ideological and theoretical kinship of Keynesianism with Tugan-Baranovsky is emphasised by Hansen. He terms the book by Tugan-Baranovsky previously cited the "first modern scientific work devoted entirely to industrial cycles". "This work," he writes, "appeared at the turn of the century, and it stands out as a milestone separating the old from the new".²

"Tugan-Baranovsky," continues Hansen, "boldly set forth the view that 'the industrial cycle', as he called it,

¹ *Ibid.*, p. 223.

² A. H. Hansen, *op. cit.*, p. 226.

relates in particular to the 'periodic creation of new fixed capital'. His analysis came like a fresh ocean breeze.... This analysis marks an important turning-point in business-cycle theory."¹

Then, what actually determines the cyclical nature of capitalist production?

The cyclical movement of the capitalist economy arises from the development and sharpening of the contradictions in the capitalist mode of production. These lead the economy from a crisis of overproduction through depression, recovery and prosperity to a new crisis, during which the disproportions between production and consumption in the development of individual branches of the economy are partially and temporarily mitigated by forcible means.

The basis of crises lies in the root contradiction of capitalism—the contradiction between the social character of production and the private form of appropriation. This is reflected in the class contradictions, anarchy of capitalist production, the contradiction between production and consumption, between the conditions for the production of surplus-value and the conditions for its realisation, as well as in other contradictions which inevitably give rise to capitalist crises of overproduction.

Capitalist production has the tendency to unlimited expansion, since its aim is the acquisition of maximum profit. The hunt for profits leads to a colossal growth of production capacity. Moreover, the expansion of production thrusts itself upon capitalists as compulsory laws of capitalist competition, which strangles the backward and the weak, while enriching the advanced and the strong. The production of surplus-value, in the final analysis, is limited solely by the productive capacity of society.

However, the very same hunt for profits, which leads to a tremendous expansion of production capacity, inevitably results, owing to the immanent laws of capitalist

¹ A. H. Hansen, op. cit., pp. 226-27.

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production, in the relative and, in some instances, absolute impoverishment of the proletariat and the restriction of mass consumption. The conditions for the production of surplus-value, therefore, are far broader than the conditions for its realisation, inasmuch as the former are limited solely by the availability of productive forces, while the latter—by the purchasing power of the population and the proportionality of the branches of production. Production, which has the tendency to unlimited expansion, inevitably comes into conflict with the limitations of effective demand, and the consumption of the broad masses, who are, in the last analysis, the major purchasers. Hence, crises of overproduction.

According to Marxist political economy, the reproduction of fixed capital constitutes the most important aspect explaining the length of the cycle of the capitalist production process. "The average length of time during which machinery and equipment are renewed," wrote Marx, "constitutes the most important aspect explaining those long-term cycles through which industrial development has taken place since the creation of large-scale industry."¹ In this sense, Marx considered the reproduction of fixed capital as the material basis for cycles and crises.

As a matter of fact, fixed capital is bound up with production for a lengthy period of time and wears out only partially over the course of many years.

In this connection, it is necessary to keep in mind not only the physical, but also the moral, depreciation, as a result of which capital grows obsolete before its complete physical deterioration. Under capitalism it is not possible to renew fixed capital on a social scale at an even rate, from year to year. Economic crises play a decisive role in explaining this unevenness in time in renewing fixed capital, which is typical under capitalism. The general re-

¹ Karl Marx and Frederick Engels, *Collected Works*, Russ. ed., Moscow, Vol. XXII, p. 312.

duction in commodity prices and a fall in the rate of profit in times of crisis call forth particularly sharp pressure to reduce production costs. This may be achieved not merely by way of wage reductions but also by the introduction of modern and more efficient methods of production. Price reductions on equipment greatly depreciate operating fixed capital and this on the other hand, creates favourable conditions for its replacement by more modern equipment. All this clears the ground for the mass renewal of fixed capital, providing the material basis for new industrial prosperity. The periodic replacement of fixed capital on a general scale leads to the spasmodic development of all other branches of production. Can it be concluded from this that the reproduction of fixed capital or "investment" constitutes a self-contained factor which, in itself, can determine crises and economic cycles? This would not be true since the very spasmodic nature of the movement of fixed capital, as we have seen, is a consequence of the contradictions inherent in capitalist production and of crises.

"Competition," wrote Marx, "compels the replacement of the old instruments of labour by new ones before the expiration of their natural life, especially when decisive changes occur. Such premature renewals of factory equipment on a rather large social scale are mainly enforced by catastrophes and crises."¹

And further: "But a crisis always forms the starting-point of large new investments. Therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle."²

Thus not the fluctuations in the rate of investment, as Hansen and Clark maintain, cause crises and cyclical fluctuations in capitalist production, but quite the reverse. The periodic crises of overproduction engendered by in-

¹ Karl Marx, *Capital*, Vol. II, Moscow, 1957, p. 170.

² Ibid., p. 186.

herent contradictions give rise to fluctuations in the rate of capital investment.

After endowing investment with the property of causing cycles and crises in capitalist production, Hansen then seeks to explain how the unevenness of investment leads to unevenness in capitalist production as a whole. To do this, Hansen introduces into his cycle theory the Keynesian proposition concerning the so-called multiplier, and the so-called acceleration principle advanced by Albert Aftalion, a French economist, at the turn of the century.

By the term "multiplier", bourgeois economists understand an index which establishes an exact ratio between the growth of investment and the related growth of total employment and national income. This index is supposed to reflect not only the growth of primary employment that is bound up with new investment, but also so-called secondary or derivative employment. The latter grows out of the fact that new workers drawn into the production of means of production create a demand for additional consumer goods, the production of which requires new workers, etc. Hence, the conclusion is drawn that increased investment leads to an increase in national income many times greater than the increased amount of investment, and that the general increase in employment similarly is many times greater than the initial increase in employment caused by the new capital investment. "If investment," writes Hansen, "rises to high levels, income and employment rise also, but by a magnified amount."¹

Hansen describes the operation of the "multiplier" in the following way. The expansion of production and employment in those branches producing capital goods leads to a growth in wages, salaries and dividends in these branches. This increase in income and purchasing power causes a rise in demand for consumer goods. Therefore, the branches producing consumer goods, in turn, show an

¹ A. H. Hansen, *op. cit.*, p. 145.

increase in production, employment, and income. "Thus the initial increase in investment has an expanding effect upon the whole economy, causing income to rise by some multiple of the increment of investment."¹

It follows from this that the "multiplier" for bourgeois economists implies the relationship between the two departments of social production—the production of means of production, and the production of articles of consumption. In other words, they understand by this the relationship between production and consumption. The "multiplier" is the distinctive and extremely schematic bourgeois economic expression for the mutual relations between capitalist production and consumption. As a matter of fact, the "multiplier" expresses this mutual relationship only by indicating that consumption grows as a consequence of production, that the expansion of production in Department I causes a flow of labour power into the branches of this subdivision, and this leads to increased production in Department II. At the same time, the "multiplier" theory completely disregards the fact that, in the final analysis, production depends upon personal consumption. Hansen, apparently, senses that the concept of the "multiplier" provides a highly one-sided picture of the connections and mutual dependence of capitalist production and consumption. Hence, to explain this mutual dependence, Hansen introduces the additional "acceleration principle", an index establishing an exact quantitative correlation between a rise in demand for articles of consumption and a rise in the means of production required to produce such goods.

Aftalion bases his principle on the false assumption that under capitalism, consumption does not grow as a result of the growth in production, but, conversely, production grows as a consequence of consumption. He maintained that minor changes in the demand for consumer

¹ A. H. Hansen, *op. cit.*, p. 145.

goods bring about much sharper changes in the production of means of production, with the increased demand for articles of personal use stimulating the growth of production in Department I. Aftalion thus erroneously supposed that capitalist production is directly connected with personal consumption and grows as a consequence of it.

Employing the "ecceleration principle", Hansen views the mutual relationship between production and consumption in the following way. The growth of primary or, as he terms it, "autonomous" investment, has a magnified effect on total employment and income, and, consequently, a magnified effect on the demand for articles of personal consumption (the multiplier). This, in turn, again leads to an increase in investment since new means of production are necessary for the satisfaction of the increased demand for consumer goods (the accelerator). These "derivative" investments again actuate the multiplier mechanism and magnify the increase in employment and income, which leads to a new wave of induced capital investment, etc. Hansen calls the effect of the combined action of multiplier and accelerator the "leverage effect".¹

Keynes' "multiplier", Aftalion's "accelerator" and Hansen's attempt to combine the multiplier with the principle of acceleration reflect a highly superficial understanding of the interconnection between capitalist production and consumption. However, the basic error consists in not recognising the inevitable conflict between production and consumption based upon capitalist production relations.

To show the limitations of bourgeois economics on the question of the relationship between production and consumption, it is sufficient to compare its essentially metaphysical treatment of this question with the Marxist-Leninist dialectical unity of the antithesis of capitalist production and consumption. In the important works of

¹ A. H. Hansen, *op. cit.*, p. 173.

Lenin on the question of markets, which are based on the Marxist theory of reproduction of social capital, one can find a profound and all-sided description of the contradictory nature of the mutual relations between production and consumption.

1. An immediate corollary of Marx's theory of realisation is that under extended reproduction, the first department of social production (producing means of production) outstrips the growth of the second department (producing articles of consumption).

"Capitalist production, and, consequently, the home market, grow not so much on account of articles of consumption as on account of means of production. In other words, the increase in means of production outstrips the increase in articles of consumption."¹

2. Production not only outstrips consumption, but precedes it. Consumption grows as a consequence of the growth of production.

"To expand production (to 'accumulate' in the categorical meaning of the term) it is first of all necessary to produce means of production, and for this it is consequently necessary to expand that department of social production which manufactures means of production, it is necessary to draw into it workers who immediately present a demand for articles of consumption, too. Hence, 'consumption' develops after 'accumulation', or after 'production'; strange though it may seem, it cannot be otherwise in capitalist society."²

3. To a certain degree, production is "independent" of consumption, inasmuch as in the department of means of production there takes place an exchange of means of production for means of production, so that production, within certain limits, creates its own market.

"The growth of the home market is, to a certain extent,

¹ V. I. Lenin, *Collected Works*, Vol. 3, Moscow, 1960, p. 54.

² V. I. Lenin, *Collected Works*, Vol. 2, Moscow, 1960, p. 155.

'independent' of the growth of personal consumption, and takes place mostly on account of productive consumption."¹

4. However, the independence of production from consumption is highly relative. It is limited only in that productive consumption has risen faster than personal consumption. From the fact that the internal capitalist market grows not so much owing to articles of consumption as much as to means of production, "in no way does it follow that the turning out of means of production can develop *completely independently* of the production of articles of consumption and without any connection to it. Marx says in this regard, 'As we have seen (Book II, Part III), continuous circulation takes place between constant capital and constant capital. . . . It is at first independent of individual consumption because it never enters the latter. But this consumption definitely (*definitiv*) limits it nevertheless, since constant capital is never produced for its own sake but solely because more of it is needed in spheres of production whose products go into individual consumption'. . . In the final analysis, therefore, productive consumption (the consumption of means of production) is always bound up with individual consumption and is always dependent on it."²

5. The connection between consumption and production is not immediate, but ultimately makes itself felt.

"Petty-bourgeois economists considered this connection between production and consumption to be a *direct one*, they thought that production follows consumption. But Marx showed that this connection is an *indirect one*, that it only makes itself felt in the final analysis, because in capitalist society, *consumption follows production*."³

Let us examine now the multiplier and accelerator theories from the standpoint of Marxism.

¹ V. I. Lenin, *Collected Works*, Vol. 3, Moscow, 1960, p. 54.

² V. I. Lenin, *Collected Works*, Vol. 4, Moscow, 1960, p. 59.

³ V. I. Lenin, *Collected Works*, Vol. 4, Moscow, 1960, p. 164.

The multiplier theory examines, albeit highly one-sidedly, that law of development of social production stating that consumption grows as a consequence of the growth of production. However, this theory regards the connection between production and consumption extremely one-sidedly, schematically and, therefore, erroneously.

As a matter of fact, what significance is there in the assertion that "an exact relationship" exists between production and consumption, or as the Keynesians would have it, between investment and income? Of what import is the assertion that the multiplier theory aims to discover the "actual quantitative correlation between the growth of net investment and the related growth of total employment?"

The expansion of production in Department I producing means of production actually creates an additional demand for machinery, raw materials, labour and the means of consumption for the workers of this department, which increases the demand for articles of consumption and signifies an expansion of production in Department II producing consumer goods. The growth of employment in Department I is actually increased by the growth of employment in Department II; consequently, the general increase in employment owing to new capital investment is not limited solely to the branches of Department I but is spread to the branches of Department II. But the more rapid growth of production of the means of production (in Keynesian terminology—"the sharper the fluctuations in the rate of investment as compared with fluctuations in consumption") signifies the growth of productive forces of social labour. This is only another expression for the growth of organic composition of capital.

An increase in the organic composition of capital finds its expression in the relative (relative to the total sum of invested capital), and, frequently, in the absolute reduction in the demand for labour power. Accumulation, or to use the Keynesian terminology—investment, means the

expansion of production on a new, technologically higher basis, hence—on the basis of a relative reduction in the share of variable capital and increase in the share of constant capital. This implies that the expansion of production in Department I is accompanied by a relative reduction in employment in this department. If employment in Department I thereby increases in the absolute sense, then there is an increase in demand for articles of consumption, which will lead to an expansion in production in Department II. However, an increase in production in Department II is also accompanied by a growth in constant capital relative to variable capital, hence, by a relative curtailment of employment.

What results will obtain? This will depend on the ratio of constant to variable capital in every new capital investment and also to what extent the reduced amount of variable capital will go to old production. In any case, one thing is clear. Although the new investment will bring about an absolute growth in the number of employed, nonetheless it will cause a relative lowering of employment. Consequently, there is no “exact relationship” between investment and income, between production and consumption. Although such a relationship could be statistically determined with some degree of accuracy for a given capital investment in a *preceding* period, nevertheless, such a relationship becomes *inaccurate* every time new capital is invested, inasmuch as new investment usually takes place on a new and higher production base.

It follows, therefore, that the theory of the multiplier is completely abstracted from technological progress and the growth of the organic composition of capital. Consequently, it is a one-sided, superficial, and abstract representation of the connection between production and consumption which is removed from reality.

Despite the fact that the multiplier theory takes note of the law of capitalist production that production grows primarily owing to the production of means of produc-

tion and that consumption develops as a consequence, nevertheless this theory does not reflect the *specific features of capitalist production*. It is an abstraction from the growth of the organic composition of capital. It ignores, in the final instance, the dependence of production on consumption, which makes itself felt in destructive form during periods of crisis.

It should be noted that bourgeois economic thought is forced by the pressure of reality to pay some attention to a number of objective aspects of the production process, which, incidentally, have long since been explained by Marxist-Leninist political economy. Bourgeois literature, for example, makes the distinction between the two departments of social production, even if not completely clearly or consistently. Bourgeois economists recognise the special role played by Department I of social production, producing means of production. They directly or indirectly take note in their works of the fact that production outstrips consumption and that consumption follows behind production. However, these objective laws, which bourgeois economics takes note of, are laws of the process of production in general, independent of its specific social form. Thus, the division of social production into two departments still does not indicate what production we are dealing with—capitalist or socialist; in view of the fact that the more rapid growth of production of means of production as compared with articles of consumption also holds true for socialist production. These phenomena and peculiarities of capitalist production, thanks to which capitalist production as such differs from all other known forms of social production, remain beyond the comprehension of bourgeois economics. The limitations of bourgeois methodology based on the concept of an eternal capitalist system prevent bourgeois economists from giving a genuinely scientific explanation of the laws of capitalist production. Thus, in noting and taking into account the more rapid growth of Department I as compared with

Department II, bourgeois economics fails to see the inevitability of conflict between production and consumption. And, of course, it fails to comprehend that this inevitability flows from the peculiarities of production as a process of creating surplus-value, rather than from the nature of production in general. The views of bourgeois economists concerning the objective phenomena of the production process are abstracted from the specific laws inherent solely in capitalist production. Hence, they cannot satisfactorily explain the specific nature of capitalist production.

This criticism applies to the multiplier theory as well as to the acceleration principle.

When Aftalion says that minute increases in demand for articles of consumption bring about a much greater growth in production of means of production, this statement contains within it the correct thought that productive consumption increases more rapidly than personal consumption. However, this law of extended reproduction is not treated by Aftalion in historical perspective. He overlooks the fact that this law applies not merely to capitalist, but also to socialist production. However, expansion of socialist reproduction takes place without crises, showing a steady and uninterrupted growth of production of material goods, whereas capitalist accumulation is periodically interrupted by crises of overproduction. The reason for this is that capitalist accumulation is caught in the vicious circle of the basic contradiction of capitalism—the contradiction between the social character of production and the private, capitalist form of appropriation, which manifests itself, in particular, in the contradiction between capitalist production and consumption. Aftalion does not see this contradiction, because he is limited by bourgeois methodology. He cannot understand it, incidentally, because he supposes that capitalist production is directly bound up with consumption and follows behind the growth of consumption.

In fact, as has been already indicated, the capitalist home market grows mainly on account of the increase in means of production, rather than articles of consumption. Production, therefore, outstrips consumption and consumption follows behind the growth of production. The aim of capitalist production is to increase the value of capital, to produce a maximum amount of surplus-value. Hence, the specific feature of capitalist production is that production emerges as an end in itself, inasmuch as capitalist production is the process of increasing the value of capital. Consumption (personal) shows itself only as one of the aspects of the process of producing surplus-value. However, these distinctive features of capitalist production cannot alter the fact that the final aim of every sound production activity must be the production of material goods intended for the satisfaction of human wants. Consequently, capitalist production cannot develop independently of consumption. Thus, in the final analysis, production under capitalism is also dependent on consumption.

The acceleration principle, viewed from this standpoint, presents a distorted picture of the dependence of production on consumption. In fact, under capitalism, as already indicated, the dependence of production on consumption is not manifested by production following behind the growth of consumption. Quite the contrary—consumption follows behind the growth of production. This dependence ultimately comes to light only in the crises of overproduction. However, up to a certain point, production grows independently of, and not directly bound up with, consumption. Insofar as within Department I, an exchange takes place of means of production for means of production, which cannot enter into personal consumption, such production creates its own market independent of personal consumption and due to the means of production.

Whereas the multiplier theory deals with the connection between production and consumption in a highly schematic and one-sided manner—in that it recognises only the dependence of consumption on production and ignores the ultimate interconnection between production and consumption—the acceleration principle falls into the diametrically opposite error. It makes the ultimate dependence of production on consumption absolute and converts this dependence into a constant factor in the reproduction of capital. Both propositions, taken individually or in conjunction, present a distorted, one-sided, superficial, and vulgarised simplification of the connections and interconnections between production and consumption. Both the multiplier and acceleration principles do not take into account the contradictions between capitalist production and consumption. Nor is this a matter of chance. To be sure, Hansen emerges as an apologist of capitalism; his desire is to cure capitalism of crises. He approaches capitalism as a natural and eternal mode of production, and does not, or cannot, see its specific social forms and historically transitory nature. Consequently, the contradictions of capitalist production remain beyond the horizon of Hansen's view.

If Hansen cannot, or will not, see the internal capitalist contradictions, how then can he explain crises? At this point Hansen finds no better solution than to introduce into his cycle theory a number of external factors and forces, which supposedly are responsible for periodic crises.

According to Hansen, since business cycles are caused by an uneven rate of investment and since the crisis represents only the “falling” phase of the cycle, i.e., one of its aspects, the cause of crises consists simply in the reduction of capital investments. Hansen believes that the reasons for reduced capital investment are simultaneously the reasons for the crisis.

Various economists have different explanations for the periodic decrease in capital investment as the basis for

crises. Hansen, for example, introduces into his theory "growth factors", in which he includes the growth of the population and technological progress which, according to him, operate uninterruptedly during the entire cycle and "open up new profitable investment outlets".¹ Hansen then explains the reduced rate of capital investment which leads to crisis as due to the rate of investment during the boom period having exceeded the growth in population and technological progress, so that the market for investment has been exhausted in the course of time. Hansen, consequently explains crises as the lack of correspondence between production and a number of external forces, "growth factors", which he feels are not connected with production. In divorcing the cause of crises from the internal contradictions of capitalism, Hansen, of course, is able to conclude that crises can at least be considerably eased, if not completely abolished.

Clark explains periodic crises solely on the basis of the fact that the extraordinary development of the credit system in the commodity economy increases the possibility of destroying the unity between acts of purchase and sale. Thus, he confuses the possibility of crises with their actual existence. In this connection Marx wrote: "Matters do not stand any better, incidentally, among the economists (e.g., John Stuart Mill) who seek to explain crises by these simple possibilities of crisis contained in the metamorphosis of commodities, e.g., the dichotomy between purchase and sale. These definitions, which explain the possibility of crises are far from explaining their actual existence. They do not explain why the phases of the process (reproduction) come into such conflict that they can manifest their internal unity only through crisis, through a forcible process."²

¹ A. H. Hansen, *op. cit.*, p. 128.

² Karl Marx, *Theories of Surplus-Value, Capital*, Vol. IV, Russ. ed., Part II, Moscow, 1957, p. 507.

"The general possibility of crises is the very formal metamorphosis of capital, the separation of purchase and sale both in time and space. But this in no sense constitutes the cause of crises, since this is no more than *the most general form of crisis*, i.e., the crisis in its *most general form of expression*. However, one cannot say that the *abstract form of crisis* is the cause of crises. When one seeks the cause, it is in order to find out why its *abstract form*, the form in which it may possibly occur, is converted from possibility into reality."¹

The answer to the question as to why the abstract possibility of crisis inevitably turns into reality under capitalism must be sought in the profound contradictions of the capitalist economic system and primarily in the contradictions between the social character of production and the private, capitalist form of appropriation of the results of production. Clark, however, shuts his eyes to these contradictions and therefore, much like Hansen, comes to the conclusion that crises can be overcome.

These are the theoretical features of government and monopoly measures to regulate the economy. Inasmuch as the cause of the cyclical development of capitalist production is contained in, as the Keynesians maintain, a spasmodic rate of capital investment, it is their view that the evening out of capital investment may "smooth out" or "iron out" the cycle, reducing it to moderate fluctuations, thereby eliminating the destructive crises. Thus, Hansen, for example, writes that "to iron out the cycle at a sustained high level of employment" it is necessary "to offset fluctuations in private investment, with the aid of an appropriate fiscal and monetary policy"² by the government.

Offsetting fluctuations in private investment, according to Hansen, consists in compensating for the fall by in-

¹ Karl Marx, op. cit., p. 520.

² A. H. Hansen, op. cit., p. 559.

creased government expenditures for goods and services produced by private industry, by expanding the volume of public works, thus stimulating the demand for the products of private enterprise and by the growth of investment in government enterprises (public utilities, housing construction, transport, etc.).

Clark feels that the fight against crises is a struggle "to keep spending stable and adequate...."¹ Further—"the most obvious and simple method, if private spending is insufficient, is for government to fill the gap by spending more."²

Both Hansen and Clark go to great lengths to apologise for non-productive budgetary expenditures, while Hansen identifies them with private investment, and Clark—with services. Both maintain that the growth of governmental expenditures leads to increased employment and income.

Both Hansen and Clark suggest two methods of financing government expenditures—taxation and borrowing.

Government expenditures financed by taxation, writes Hansen, have an "expansionary effect", i.e., they raise the level of income and increase employment. This is argued by Hansen with the help of the far-fetched Keynesian concepts of the "marginal propensity to consume" and the multiplier. Keynes' theory is defined as the relationship between a ratio of an additional unit of income going into consumption with respect to the entire additional unit of income. If, let us say, there took place an increase in income amounting to five units, of which 3 units were expended for consumption, so that the growth of consumption lagged behind the growth of income, then the "marginal propensity to consume" would equal $3/5$ or 0.6. If the government raises \$40,000 million by taxation, this will not reduce consumption by the entire amount of taxes, but rather this sum reduced by the magnitude

¹ J. M. Clark, *op. cit.*, p. 86.

² *Ibid.*, p. 105.

of the propensity to consume. Let us apply this to our example: the reduction of consumption will consist of $\$40,000 \text{ million} \times 0.6 = \$24,000 \text{ million}$. Hence, $\$40,000 \text{ million}$ withdrawn from the taxpayers will reduce their consumption only by $\$24,000 \text{ million}$. However, the government will expend the entire $\$40,000 \text{ million}$, and therefore, the total demand will increase by $\$16,000 \text{ million}$ ($\$40,000 \text{ million} - \$24,000 \text{ million}$). This increase in demand puts into operation the mechanism of the multiplier, and in this manner, income grows not by $\$16,000 \text{ million}$, but by the entire sum of $\$40,000 \text{ million}$.¹

According to Hansen, therefore, if the government extracts a certain sum of money in the form of taxes from its citizens, this does not reduce but rather increases the income of the population by such an amount. It will be pointed out further on whose income grows as a result of increased taxation. At present, we shall confine ourselves to pointing out that, in the first place, Hansen's absurd argument concerning the "philanthropic" effect of taxes on income without regard to the source of income is a logical consequence of the fallaciousness of the multiplier theory and "fundamental laws of psychology" and, in the second place, the complete theoretical untenability of these arguments comes to light as soon as we are confronted with actual facts. How then do government outlays financed by taxation act upon "income"? Let us examine the following official data concerning wages, income taxes and indirect taxes in the United States for 1954-56.²

¹ A. H. Hansen, *op. cit.*, p. 204. According to Hansen's theory, with a "propensity to consume" equivalent to 0.6, the multiplier is equal to 2.5. Therefore, an expansion of demand by $\$16,000 \text{ million}$ due to governmental expenditures, which Hansen identifies with investment, would cause an increase in national income of $\$16,000 \text{ million} \times 2.5 = \$40,000 \text{ million}$.

² *The Statistical Abstract of the United States*, 1955, p. 357; 1957, pp. 299, 365, 368.

	Fiscal years ending June 30 (in thous. mill. dollars)		
	1954	1955	1956
Wages and salaries	161.2	174.5	187.5
Employment taxes	21.8	21.3	24.0
Excise taxes and customs	10.6	9.8	10.7
Grand Total (direct and indirect taxes)	32.4	31.1	34.7

According to Hansen's reasoning if the government in 1954 imposed taxes on workers and office employees amounting to \$32,400 million, in the following year (1955) their incomes should have increased by this same amount—\$32,400 million—as compared with 1954.¹ However, the total amount of wages in 1955 exceeded the 1954 level only by \$13,300 million. In 1956, wages exceeded the 1955 level by \$13,000 million. According to Hansen's theory, this should have amounted to \$31,100 million.²

Hansen maintains that government outlays financed by borrowing increase income and employment through the multiplier mechanism, much the same as does private investment.³

Clark pays particular attention to government borrowing as the source for financing government spending. If government spending based on taxes increases total demand by 20 cents for every dollar of taxes,⁴ then borrowing, he writes, would be a "clear net increase" in total spending.⁵

¹ Employing a "propensity to consume" equal to 3/5, and a multiplier equal to 2.5.

² The increase of \$13,300 million in total wages for 1955, and \$13,000 million in 1956, by no means signifies a corresponding increase in real wages for workers and office employees, inasmuch as, during this period, the number of workers employed in production increased and the cost of living, bound up with inflation, rose.

³ See A. H. Hansen, *op. cit.*, p. 206.

⁴ See J. M. Clark, *op. cit.*, p. 105.

⁵ *Ibid.*, p. 107.

However, a new problem arises as regards borrowing, notes Clark—the problem of the public debt. The problem, in brief, is that with the growth of the public debt, interest payments on loans rise, and if the budgetary deficit is not limited, then the debt charges may exceed tax revenue.

To avoid this difficulty, Clark proposes a limitation on the annual deficit so that it will not exceed the annual average increase in national income. Thus, for example, Clark estimates that the "real income" in the United States may grow between 2 per cent and 3 per cent a year, and this opens up the possibility for increasing the public debt, and debt charges, by 2-3 per cent annually. The relation between the public debt and the national income would then remain unchanged. If, however, with an annual 2-3 per cent growth in national income there takes place a "slow long-term uptrend in prices" also amounting to 2-3 per cent annually, the permissible annual average deficit is equal to approximately 5 per cent of the national income. Such a policy, writes Clark, "would provide scope for the maintenance of total spending".¹

Clark evidently supposes that he has found an effective formula for a crisis-free development. Slow inflation, the steady expansion of production or, as he has it, "real income", and a moderate deficit in the state budget—this is his panacea for saving capitalism from crises and unemployment.

Clark's arguments, however, are far from scientific. As a matter of fact, he is searching for the means of eliminating crises and unemployment, i.e., for uninterrupted and consistent expansion of production. At the same time, an essential ingredient of his recommendations for abolishing crises and unemployment is precisely the uninterrupted and consistent expansion of production or "real income", which itself presupposes the absence of crises.

¹ J. M. Clark, op. cit., p. 109.

Consequently, he converts the unknown quantity into something given, or in existence, and by this elementary method "demonstrates" the determination of the unknown quantity. Such a method—if it may be so termed—cannot, of course, be considered as part of the scientific method.

Clark and Hansen, therefore, consider increased government spending indispensable to the struggle against crises. Such spending, according to them, is capable of filling the gap left by private capital investment. According to Keynesian theory, inasmuch as an immediate cause of crises is reduced investment, and inasmuch as public spending can compensate for this reduction, the way is opened for averting crises of overproduction. This is the central theme of modern American Keynesian schemes designed to cure capitalism.

However, the nature and causes of cycles and crises, as already indicated, are completely different, and Keynesian followers either do not understand them because of their class limitations or distort them.

Of what significance are the Keynesian state-monopoly measures for the regulation of the economy? What, in particular, are the consequences of a policy aimed at stimulating private investment through the bolstering of public spending and the financing of private capitalist enterprises?

This policy takes into consideration only one side of the nexus between production and consumption, namely, that production in itself creates its own market and that the growth of production causes an increase in consumption. This policy overlooks the second but no less important aspect of this interconnected relationship. It leaves out of sight the fact that, under capitalism, production is ultimately dependent on consumption and that, as a result of the distinctive features of the capitalist mode of production, the latter inevitably clash with the restricted

nature of consumption. The major flaw in the theory and policy of state stimulation of private investment is the overlooking of the dependence of production on consumption and the failure to understand the inevitability of conflict between these two categories based upon capitalist production relations.

However, it would be an error to deny any significance to a policy of stimulating private investment through increased public spending by a bourgeois state. An examination of the concrete sources from which the U.S. national budget is financed shows that public spending can expand the internal market to a certain extent and for a given period, and thereby promote temporary prosperity on an artificial and unhealthy economic basis.

In economic literature the question of sources of financing bourgeois state expenditures is frequently dealt with extremely schematically. It is usually indicated that militarism occurs at the expense of the working population. This, of course, is quite true in view of the fact that the major share of the budget comes out of the necessary product, distributed in the form of wages (taxes on wages and indirect taxes). However, a portion of the budget comes from the surplus-product (taxes on profits and borrowing). Both sources are the product of the labour of workers. However, in the circulation of capital, each of these two portions of the newly created value of the labour of workers, $v+m$, completes an independent movement. Therefore, it is important to examine these sources individually.

Taxes imposed on the working people are taken directly out of their income without compensation. Increased public spending based on this category of taxes cannot add to the over-all purchasing power, since the increased government demand is offset by the reduced demand of the working people.

The post-war period is marked by a considerable increase in direct and indirect taxation imposed on the American workers.¹

Growth of Income Taxes on Wages in U. S. A.

	Fiscal years ending June 30					
	1943	1947	1952	1954	1955	1956
Individual income taxes (in thous. million dollars) .	6.6	19.3	29.3	32.5	31.6	35.3
Withheld by employers (in thous. million dollars) .	0.7	9.8	17.9	21.8	21.3	24.0
Proportion of taxes on wages to total sum of individual income taxes (in per cent)	10.6	50.8	61.1	67.1	67.4	68.0

The data given in the table above show that, at the present time, American working people are compelled to pay to the Treasury two-thirds of the total amount of individual income taxes. If one also takes into consideration indirect taxes, which rose between 1943 and 1956 from \$4,100 million to \$10,700 million annually, and the main weight of such taxes is borne mainly by the mass of consumers, it becomes abundantly clear that the U.S. Government has placed the greatest share of the tax burden on the shoulders of the American working population.

However, public spending is financed not only by taxes on wages. A considerable portion of the budget is also derived from capitalist profits.

What is the effect on the total social demand of public spending derived from taxes on profits? This question has been insufficiently dealt with in economic literature. Nevertheless, these taxes occupy an increasing pro-

¹ *The Statistical Abstract of the United States*, 1946, p. 319; 1943, p. 331, 335; 1953, p. 348; 1955, p. 352, 357; 1957, p. 365, 368.

portion both of the total capitalist profits, as well as of the country's national income.

It should be emphasised that the growth of taxes on profits takes place and is made possible solely to the extent that there is an increase in capitalist profits in general and in net profits in particular.

The table below shows the steady growth of over-all profits of U.S. corporations, net profits, and dividends.¹

U. S. Corporate Profits
(in thousand million dollars)

	1929	1939	1949	1951	1953	1956
Corporate profits						
before tax	9.6	6.4	26.2	41.2	38.3	43.0
after tax	8.3	5.0	15.8	18.7	17.0	21.0
Dividends	5.8	3.8	7.5	9.1	9.3	11.9
Undistributed profits . . .	2.5	1.2	8.3	9.6	7.7	9.1

Nevertheless, it would be incorrect to ignore the growth of over-all profits and the proportionate share of taxes on profits. The growth of taxes on profits in the United States can be followed from official data on corporation profits.²

Whereas the proportion of taxes on corporate profits in 1929 mounted to 14.6 per cent of the total corporate profits and 1.6 per cent of the national income, during the six-year period 1951-56, this proportion rose to an annual average of 53.1 per cent of total corporate profits and 6.7 per cent of the national income.

¹ *Survey of Current Business*, July 1955, pp. 8-9;
Federal Reserve Bulletin, April 1958, p. 468.

² *Survey of Current Business*, July 1955, pp. 8-9;
Federal Reserve Bulletin, April 1958, p. 468;
The Statistical Abstract of the United States, 1957, p. 299.

Taxes on Corporate Profits in the United States

	1929	1939	1949	1951-56 (annual average)
National income (in thous. million dollars)	87.8	72.8	216.2	305.6
Taxes on corporate profits (in thous. million dollars)	1.4	1.4	10.4	20.6
In per cent of profits	14.6	21.9	39.7	53.1
In per cent of national income . . .	1.6	1.9	4.8	6.7

Unquestionably, the increase in taxes on capitalist profits and the effect of public spending based on these taxes upon the over-all purchasing power deserve attentive study.

An erroneous view in economic literature, we feel, assumes that public spending of sums derived from taxes, regardless of whether from wages or profits, reduces the purchasing power of the population. According to this view, increased demand on the part of the government fully compensates for the reduced demand on the part of the population.

This standpoint is justified only with respect to public spending financed by taxes on wages. It does not hold for the other means of financing such expenditures, namely, taxes on profits. The fallacy in this point of view consists in the disregard of the question of relative surplus capital, which is characteristic of the imperialist epoch.

The imperialist stage of capitalism is marked by a gigantic concentration of production and capital leading to monopoly, a merging of banking and industrial capital to form finance capital. The accumulation of capital on this basis, as pointed out by Lenin, led capitalism to become "overripe" and resulted in the advanced capitalist countries producing a "surplus" of capital, which did not find profit-

able investment fields within the country. This is summed up in the third characteristic feature of imperialism—the decisive importance acquired by the export of capital.

Lenin was quite definite in his emphasis on the relative nature of the “surplus” of capital. Capital is “super-abundant” because it cannot find profitable application: in the first place, because of the low standard of living of millions of working people; and, secondarily, as a result of the unevenness of development, which manifests itself in particular, in the lagging of agriculture behind industry.

However, the fact that the nature of this surplus capital is relative in no way contradicts the fact that this surplus capital is a completely real and palpable phenomenon. It makes its appearance particularly in the form of chronic undercapacity production together with chronic mass unemployment, in the accumulation of huge monetary reserves both in capitalist enterprises and in banks, in the intensified striving of monopoly capital to increase the export of capital, in the vast scope of speculation on the money market, etc.

In some respects, taxes on profits represent the accumulation in the budget of relative surplus capital. And when the government siphons off, with the help of taxes on profits, a certain portion of surplus capital, i.e., that portion which has not found profitable investment, it makes a demand on the product of private industry that leads to an expansion of the total purchasing power.

Hence, it must be recognised that the bourgeois state can temporarily and to a limited extent expand the scope of the home market beyond the limits set by the spontaneous circulation of capital. It can accumulate fiscally and put into circulation that sum which has not found profitable investment and is, therefore, lying idle as relative surplus capital.

It should be noted that with the development of state monopoly capitalism taxes on profits also serve as a

method of redistributing surplus-value. The redistribution is achieved through the monopoly of government orders, particularly military contracts.

According to data published in the U.S. press, contracts for military supplies amounted to \$98,400 million in the three years—July 1, 1950-June 30, 1953. Of this, one hundred of the largest corporations received contracts amounting to \$63,000 million, or 64 per cent of all contracts. The ten largest companies were given contracts amounting to \$30,900 million, or 31.4 per cent of all orders.¹

Military Contracts Received by U. S. Corporations as Compared with the Amount of Taxes Paid

	Taxes paid in 1951-53		Amount of orders received between July 1, 1950 and June 30, 1953		Ratio of amount of orders to amount of taxes paid (in%)
	In thous. mill. dollars	In % of total taxes	In thous. mill. dollars	In % to total contracts	
80 largest corporations	11.7	18.4	57.9	58.8	494.9
Remaining corporations	51.8	81.6	40.5	41.2	78.2
Total of all corporations	63.5	100.0	98.4	100.0	155.0

If the amount of contracts is compared with the amount of taxes paid by the largest corporations and then compared with all the remaining companies, the discriminatory character of the system of distributing orders with respect to the medium, and even more so, to the smaller companies, becomes very clear.²

¹ *The Magazine of Wall Street and Business Analyst*, April 17, 1954, p. 76.

² *The Magazine of Wall Street and Business Analyst*, April 17, 1954; *Moody's Industrial Manual*, 1953, 1954; *Survey of Current Business*, January 1956, p. 9.

As is evident from the above table, the 80 largest corporations paid to the Treasury in the form of taxes on profits 18.4 per cent of the total sum of corporation income taxes, while contracts received by them amounted to 58.8 per cent of the total sum of contracts. The ratio of the amount of contracts received by these corporations to the sum of taxes paid by them equals 494.9 per cent. On the other hand, all remaining corporations, paying 81.6 per cent of the total amount of taxes on corporation profits, received only 41.2 per cent of all contracts. The ratio of the sum received by them for contracts and taxes paid by them equals 78.2 per cent, i.e., $1/6$ of that received by the 80 largest corporations. This is clear evidence of the fact that the monopolies redistribute a portion of the surplus-value in their favour, which flows into the Treasury in the form of taxes on profits, but, at the same time, is at the expense of the petty and middle bourgeoisie.

Bourgeois economists, in their efforts to justify theoretically the policy of increased taxation on the working people, completely distort the influence of government spending based on taxes on the total purchasing power. These writers make no distinction between taxes on wages and taxes on profits. They believe that increased government spending due to any form of taxation will lead to an increase in the total volume of demand. Moreover, they maintain that high taxes will dampen the ardour of the potential investor, consequently there should be no high taxes placed on profits, for this could lead to reduced investment and increased unemployment. The increased demand resulting from greater governmental expenditures due to taxes is placed by them primarily at the door of subjective factors, "laws of psychology".

Underlying this presumably, is the Keynesian "psychological law" according to which the growth of consumption on the part of the population lags behind the growth of income, which leads to increased idle savings. This is

explained presumably by the fact that with the increase in income, the "propensity to consume" decreases.

When the government withdraws a portion of the income of the people in the form of taxes, this reduces the consumption of the population not by the total amount of taxes but merely by some portion of it. However, the government spends the entire amount of collected taxes. As a result, there is a rise in total demand. J. M. Clark, as already noted, considers that a reduction in private spending as a result of tax withdrawals is somewhat less than the increase in government spending due to these taxes, and that this raises total demand by something like 20 cents on each dollar of taxes.

Bourgeois economists in such cases usually ignore the class content of the various categories of political economy. For them, both wages and profits are payments for labour—either the labour of the worker or the labour of the entrepreneur. Consequently, they do not see the difference between taxes on profits and taxes on wages. According to them, government spending stemming from both categories of taxes has the effect of increasing total social demand. They are unable to recognise that total purchasing power can be artificially expanded solely by the withdrawal of surplus capital, but in no case, as a result of taxes on wages.

The existence of idle social savings is attributed by them to the psychological inclinations of people and, in particular, to the so-called "marginal propensity to consume". To be sure, one can hardly expect bourgeois economics to acknowledge that idle capital, which has its counterpart in idle labour power, is due to the antagonistic nature of capitalist production.

It is absurd to suppose that a rise in public spending based on taxes on wages can increase total purchasing power.

From the theoretical point of view, this would presuppose, in the first place, that the worker constantly received

in the form of wages value in excess of the value of his labour power, or that the price of labour power constantly exceeded its value.

Secondly, this would presuppose that the worker continually saved this excess of the price of labour power over its value. Only in such a case would government spending due to the taxation of this saved excess increase total demand. But such an assumption is both theoretically and practically untenable.

Bourgeois economists usually make the increase in the savings of the population their point of departure. In doing so, they overlook, in the first place, that the capitalist class possesses the great preponderance of savings. Secondly, they lose sight of the fact that the increase in consumer debt falls largely on the working people.

A U.S. Congressional Committee investigating low income groups in the population reported that in 1954, 26.3 million American families, or 63 per cent of all families, had an annual income lower than the subsistence minimum established by the Heller Committee of California University—a level providing the barest minimum income. Moreover, 8.3 million families (20 per cent of the total) received less than \$2,000 a year, i.e., less than 37 per cent of the amount considered necessary by the Heller budget.¹ Under such conditions, the opportunity for any considerable savings to be made out of wages by the working masses is practically excluded. This is further emphasised in official statistics concerning savings. In 1954, 14.3 million American families (26 per cent of the total) had no savings whatsoever and 50 per cent of all families had saved very inconsiderable sums amounting, on the average, to \$350. Such an amount is hardly equal to the basic needs of a family for a single month. At the same time, 2.2 million of the more well-to-do families (4 per cent of the total) had

¹ *Economic Situation in the Capitalist Countries in 1955*, Russ. ed., Moscow, 1956, p. 303.

savings averaging more than \$10,000.¹ In addition, it might be mentioned that from the close of 1945 through September 1956 consumer credit rose by \$34,400 million. Thus, it becomes quite evident that the large mass of American working people not only possessed no savings, but even went into debt.² Consequently, a rise in government spending based upon taxes on wages is fully balanced by a reduction in the purchasing power of the working population.

The government obtains relative surplus capital for the budget not only through taxes, but also by borrowing. Public spending due to borrowing also artificially expands the total purchasing power and thereby extends the limits of the market.

The financing of public spending from borrowing, or so-called deficit financing, is one of the key points in Keynesian schemes to regulate the economy.

In this connection it should be pointed out that the practice of deficit financing is applied not only to federal, state and local spending but to capitalist enterprises as well. This is reflected in the considerable post-war increase in the private debt. Some idea of the scale of deficit financing in the United States can be gained from the following official figures.³ For the period from December 1945-December 1957, the total amount of public and private debt grew from \$406,300 million to \$707,500 million, i.e., \$301,200 million. During this period, the public debt rose from \$266,400 to \$271,000 million; net corporation indebtedness rose from \$85,300 to \$215,500 million, farmers' indebtedness, including mortgages, rose from \$7,200 to \$20,500 million; mortgages, apart from farm mortgages, rose

¹ *Economic Situation in the Capitalist Countries in 1954*, Russ. ed., Moscow, 1955, p. 221.

² *Federal Reserve Bulletin*, November 1956, p. 1228.

³ *Economic Report of the President*, January 1958, p. 170.

from \$27,000 to \$131,000 million; consumer debt increased from \$5,700 to \$44,800 million and other indebtedness from \$14,800 to \$24,700 million. This huge increase in the credit structure undoubtedly promoted economic activity, inasmuch as it led to an artificial expansion of the internal market.

The post-war period shows that bourgeois governments have some means of artificially expanding the internal market. In forecasting the future development of capitalism, it would be a mistake to overlook the fact that monopoly capitalism can employ certain state measures to regulate the economy, which, in turn, provide it with a certain amount of manoeuvrability.

At the same time, it would be quite wrong to overestimate these possibilities and to ignore the palliative and limited nature of such regulatory measures.

Taxes on corporation profits, by means of which the state withdraws a portion of surplus capital and, on the basis of this demand upon the product of private industry, artificially expands total demand, have certain limitations. Governmental spending due to such taxes can artificially promote economic activity as long as taxes on profits do not interfere with normal economic activity and as long as taxes are returned with interest in the form of profits. The further growth of such taxes can only lead to the bankruptcy of small and later medium-sized enterprises which obtain merely an insignificant portion of government orders and subsidies. This, in turn, will lead to a sharp growth of mass unemployment, a considerable shrinkage of mass purchasing power, and an aggravation of the overproduction crisis.

Borrowing as a means of expanding total demand also has its limitations, since, in the final analysis, it increases current demand at the cost of its future reduction. Credit expansion inevitably results in an extraordinary growth of the public and private debt and a strain on the credit

structure. One cannot indefinitely transfer demand from the future to the present without overstraining the credit system. An inflated public and private debt means that with the beginning of a serious crisis, there will develop a sharp demand on the part of capitalists for means of payment, which inevitably will lead to a rush on the Treasury. In the present U.S. financial situation, this could evoke a catastrophic increase in inflation. It is patent that a further swelling of the large public and private debt can lead to over-extension and a crash in the credit system, the result of which can only be a further deepening of the general economic crisis.

State monopoly regulation of the economy does not abolish the economic laws of capitalism, and does not remove the antagonistic contradictions of the capitalist mode of production.

It by no means disturbs the economic basis of this mode of production—private capitalist ownership of the means and instruments of production—and does not change the capitalist nature of production. Consequently, it does not remove the basic contradiction of capitalism—the contradiction between the social character of production and the private, capitalist form of appropriation, which manifests itself in the contradictions between production and consumption, between the tendency towards boundless expansion of production and the limited purchasing power of the population, in the unplanned and anarchical nature of capitalist production.

Notwithstanding the assertions of bourgeois apologists that increased government interference in the economy can smooth over the contradictions of the capitalist mode of production and distribution, and that it will lead to less inequality in income distribution, the facts demonstrate that the share of the working people in the national income is growing constantly smaller and the capitalist share is steadily growing larger. This process can be illustrated in the United States even by official statistics, de-

spite the fact that they are weighted tendentiously, particularly with respect to the distribution of national income.¹

(In Thous. Million Dollars)

	For 14-year period (1929-42)	For 14-year period (1943-56)	Increase
Corporate profits	82.9	451.1	5.4 times
Wage and salary payments . .	531.6	1,769.5	3.3 "

As indicated by the above table, corporation profits for the 14-year period 1943-56 amounted to \$451,100 million and were over five times greater than that for the period 1929-42. At the same time, wage and salary payments increased 3.3 times for the same periods. It should be noted that the growth of real income of the working people did not keep pace with the increase in wages, since increases in the latter were, to a considerable extent, balanced by a fall in the purchasing power of the dollar to almost half of the pre-war level and the increase in the number of employed persons. Hence, even the underestimates of official figures show a rise in profits amounting to one and a half times that of wages and salaries.

This is the best refutation of bourgeois views that government intervention in the country's economic life will reduce inequalities in income distribution. It also shows that state monopoly measures for regulating the economy do not remove the basic contradiction of capitalism—the contradiction between the social character of production and private appropriation, which is the root of crises, and does not eliminate the effect of the general law of capitalist accumulation.

The artificial expansion of demand with the help of government spending for a time creates the appearance of well-being. Production is stimulated. To be sure, in a period

¹ *Survey of Current Business*, July 1957, pp. 8-9.

of militarisation, this economic activity is a consequence of the production of armaments. However, the growth of production and employment in those branches producing arms results in increased demand for consumer goods, as well as the means of production for consumer goods industries. All this fosters the illusion of general economic prosperity which bourgeois economists eulogise as the "prospering" post-war U.S. economy. On the other hand, the temporary and artificial increase in production leads bourgeois economists erroneously to conclude that production is independent of consumption and that it is possible to overcome crises by stimulating investment, or by filling the gap through government military contracts, or by a combination of both.

In an effort to cure capitalism of its fatal disease—crises of overproduction—monopoly capitalism actually succeeds only in making it sicker. State monopoly measures to increase government spending and to militarise the economy can only provide a temporary postponement of the periodic overproduction crisis.

We have seen that the artificial expansion of the market takes on a temporary and limited character. However, the reasons evoking a crisis of overproduction continue to exist. The gap between production and consumption, between the growth of productive capacity and the limitation of the mass purchasing power of millions of working people grows apace. Now and then, this gap is bridged by government spending derived from a relative excess of capital. However, such spending can only bridge this gap temporarily, and is not capable, even for a short time, of halting the very process which tends to widen this gap, as a result of the operation of the immanent laws of capitalism. The growing discrepancy between productive capacity and a relatively narrow base of mass purchasing power will require an increasing scale of government spending. And when the means for artificially extending mass purchasing power are exhausted, then the yawning

abyss, artificially deepened, between the tremendously swollen production capabilities and relatively small purchasing power of the population becomes clear for all to see. It can be concluded that a state monopoly policy for the regulation of the economy can temporarily stave off the onset of crisis, but it objectively and unavoidably creates the conditions for a still further deepening of an overproduction crisis.

Crises remain objectively inevitable, despite the speeded-up development of state monopoly capitalism. It is impossible, in the final analysis, to abolish crises while maintaining their root cause—the capitalist economy.

THE PROBLEMS OF CHECKING INFLATION AS DEALT WITH BY AMERICAN ECONOMISTS

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During the post-war period, inflation—its causes, consequences, and the possibilities of limiting it—has become one of the urgent questions attracting the attention of American economists. Unflagging interest in inflation is evoked not merely because bourgeois economists see inflation as one of the means of saving capitalism from periodic crises of overproduction. An immediate reason for the heightened interest in problems of inflation is the fact that it has become one of the essential features of U.S. post-war development, which has given rise to grave economic difficulties.

Inflation is the depreciation of paper currency, issued in excess of the demands of circulation, expressing itself in price rises and leading to a redistribution of the national income in favour of the state and propertied classes, to the detriment of the working people.

It should be noted that not every price rise is caused by inflation. A complex of economic factors, each of which possesses its independent significance, is interwoven in the complicated process of determining prices. These include a change in labour productivity and the correspond-

ing change in the value of a commodity, excess demand over supply for particular commodities as a result of their novelty or the temporary curtailment of their production, the boosting of prices by monopolies, etc.

Cyclical factors in the pre-crisis period of boom play an important part in raising prices. Price rises may also be due to the lowered value of gold.

In different cases a tendency to a rise in prices as a consequence of similar reasons can be held in check by opposing tendencies. Thus, for example, an inflationary price rise, i.e., a price rise bound up with monetary depreciation can be held back for several years by government price control (as was the case during the Second World War). It can be impeded by the development of a crisis resulting in a falling tendency, a growth of labour productivity, a fall in the value of commodities, etc.

The action of these various factors is not easily separated out. However, in some cases, one can establish, with the help of other economic indicators, the basic reasons for a particular price movement at a given moment. The most important factor, although not the only one, determining post-war price rises in the United States was inflation.

The general trend of prices after the war can be gained from the following table:¹

	1939	1945	1948	1949	1950	1951
Wholesale price index (1947-49=100)	50.1	68.8	104.4	99.2	103.1	114.8
Consumers' price index (1947-49=100)	59.4	76.9	102.8	101.8	102.8	111.0

¹ *The Statistical Abstract of the United States*, 1953, p. 300; *Federal Reserve Bulletin*, June 1960, p. 690.

	1952	1953	1954	1955	1956	1957	1958	1959
Wholesale price index (1947-49=100) . . .	111.6	110.1	110.3	110.7	114.3	117.6	119.2	119.5
Consumers' price index (1947-49=100) .	113.5	114.4	114.8	114.5	116.2	120.2	123.5	124.6

By 1959, the indexes of wholesale prices and prices of consumer goods rose 138.5 per cent and 109.8 per cent, respectively, over the pre-war level. The rise in prices, however, was not even. During the war, precisely when the greatest increase in currency in circulation took place, the rise in prices was not as sharp as in the following period. The indexes of wholesale prices and consumer goods prices rose by 37 per cent and 30 per cent, respectively, during that period. The reason for this was government price control, which, to a certain degree, held prices in check. (To be sure, the official index does not reflect price increases on the black market and with regard to government military contracts, as a result of which the actual price rise is somewhat understated.) The lifting of price control in 1946 caused a sharp price rise. In 1948, wholesale prices rose 51 per cent as compared with 1945, and consumer goods prices—35 per cent.

In 1948-49, prices dropped somewhat, undoubtedly bound up with the appearance of crises phenomena in the United States. However, the outbreak of war in Korea led to a new sharp rise in prices. Wholesale prices rose 11.3 per cent between 1950 and 1951, and prices of consumer goods—8 per cent.

From 1952-53 until 1955, prices stabilised somewhat, at a level, however, greatly exceeding that of 1950. An important factor operating against a price rise was the 1953-54 production slump, which under other conditions might have evoked a price fall. After 1954, the inflationary process slackened somewhat as a result of the greater increase in the rate of production as compared with the rate of in-

crease of paper currency. This tended to stabilise the price level in 1954-55.

At the beginning of 1956, a new upswing in prices occurred.

A key reason for the post-war inflationary trend in the United States was the extraordinary large mass of money in circulation even during the war years and the continued increase in volume of currency in circulation during the post-war period, resulting from increased military expenditures and deficit financing during most of the post-war years.

From 1939 through 1945, U.S. military expenditure grew from \$1,100 to \$84,600 million. After the end of the war, military spending shrank somewhat during the two years —1947 and 1948. In 1953, they reached their maximum—\$51,800 million. In the following years military expenditures were somewhat reduced: in 1956, they amounted to \$41,800 million. However, in 1959, they again rose to \$45,800 million.¹ This tremendous increase in military expenditures was the chief reason for the colossal growth in public debt: from \$58,900 million in 1939 to \$266,400 million in 1945;² and to \$290,900 million in December 1959.³

The increase in public debt during the war years and thereafter had an immediate effect on inflation. If all of the borrowing had been distributed among the population in the form of savings and bonds not held by banks, then they would not have led to an increase in money in circulation and would have signified merely the transfer of a portion of the income of the people to the government. However, in fact a considerable portion of government bonds were purchased by private banks. During the Second World War, 51 per cent of the government debt fell to the

¹ *Federal Reserve Bulletin*, June 1960, p. 692.

² *The Statistical Abstract of the United States*, 1956, p. 380.

³ *Federal Reserve Bulletin*, June 1960, p. 666.

share of Federal Reserve and commercial banks. After the war, this amount was somewhat reduced, and during 1951-59, it fluctuated between 30 and 33 per cent.¹

In the absence of any credit restrictions, this implies the following: the acquisition of government securities by commercial banks leads to the creation of new deposits, consisting mainly of checking accounts. Requiring additional reserves—inasmuch as the volume of credit must correspond to a certain reserve level—the commercial banks throw a portion of the securities on the open market. The chief purchasers of these securities are the Federal Reserve Banks, which, in an effort to support the price of government securities, buy them up mainly through the additional issue of paper money, thereby expanding the credit available to the commercial banks. As a result of these operations, the accumulation of government securities by reserve and commercial banks is accompanied by an increase in circulating media—deposits and currency in circulation.

During the Second World War, government indebtedness to issue banks increased from \$2,500 million in 1939 to \$24,300 million in 1945, and, in December 1959, it mounted to \$26,600 million². Government indebtedness to commercial banks (members and non-members of the Federal Reserve system) rose from \$15,700 to \$84,000 million during the war years.³ And, although this shrank considerably by the end of 1959, it still reached the imposing figure of \$59,800 million.⁴

This huge increase in public credit was a most important factor in the colossal growth of circulating media: from

¹ Calculated on the basis of data provided in the *Federal Reserve Bulletin*, June 1960, p. 666.

² *The Economic Almanac 1951-1952*, p. 118; *Federal Reserve Bulletin*, June 1960, p. 666.

³ *The Economic Almanac 1951-1952*, p. 121.

⁴ *Federal Reserve Bulletin*, June 1960, p. 666.

1939 to 1945, currency in circulation rose from \$7,500 to \$28,500 million; and, by the end of 1959, it had reached \$32,600 million. The sum of demand deposits, which consist chiefly of checking accounts and at present cover 90 per cent of all payments, rose from \$29,800 to \$75,800 million in the corresponding period; and, by the end of 1959, amounted to \$115,400 million.¹

However, of primary importance as a factor in inflation is the relative increase in circulating currency as compared with the country's economic needs. To compare these two trends, various indirect indicators may be employed. The most general approximate picture may be obtained by a comparison of industrial production and total circulating media (money in circulation plus demand deposits).

**Growth of Industrial Production and Total
Circulating Media**

(currency in circulation plus deposits)
(in %)²

	1939-59	1939-45	1945-59
Industrial production	174.0	90.0	50.0
Circulating media	295.7	178.8	42.0

In general, the growth of currency in circulation, as compared with the pre-war period, has considerably exceeded the increase in total industrial production. By December 1959, the volume of currency had increased 195.7 per cent as compared with 1939, at the same time industrial production has risen only 74 per cent. It should be noted that this considerable discrepancy between the growth of industrial production and the amount of currency in circulation is almost completely attributable to

¹ *Federal Reserve Bulletin*, June 1960, pp. 647, 648.

² Calculated on the basis of data in the *Economic Almanac 1956*; *Federal Reserve Bulletin*, June 1960.

inflationary financing during the Second World War. Industrial production increased 90 per cent from 1939 through 1945, while the circulation medium rose by 178.8 per cent.

In the post-war period, the tremendous discrepancy between the increase in the amount of currency in circulation and industrial production was somewhat narrowed. From the close of 1945 to the end of 1959, industrial production rose 50 per cent, while the amount of money in circulation increased 42 per cent. However, the glut of excess paper money continued to exert a disruptive influence upon the U.S. monetary system.

It should not be overlooked that a comparison of the growth of industrial production with the growth of circulating currency is not an exact indication of the surplus money in circulation. But it is one of the indirect indicators. In addition we shall compare two other indicators, which will help to give a more complete picture of currency circulation in the United States during the post-war years.

Let us compare the growth of retail trade, in terms of 1939 prices, with currency in circulation, since the overwhelming proportion of cash serves retail trade.

Growth of Retail Trade and Currency

(in %)¹

	1939-45	1945-56
Growth in physical volume of retail trade . . .	31.2	56.0
Growth in total cash in circulation	275.0	41.5

This table shows even more clearly than the previous one that post-war inflation in the United States is basi-

¹ Calculated on the basis of data from *The Statistical Abstract of the United States*, 1958; *The Economic Almanac*, 1958.

cally due to inflationary financing of expenditures during the Second World War. From 1939 through 1945, the physical volume of retail trade increased by 31.2 per cent, while the total cash in circulation grew by 275 per cent.

In the post-war years, retail trade rose much more rapidly than the total volume of production. This was bound up with the more rapid development, particularly in the immediate post-war period, of the production of consumer goods, which were in very short supply during the war years, and was further accelerated by the lifting of wartime restrictions. At the same time, the total amount of currency in circulation grew much less markedly. Thus, the physical volume of wholesale trade grew by 56.0 per cent over the period 1945 through 1956, while cash in circulation rose by 11.5 per cent.

It should be noted that the Korean war took place during this period. A sharp increase of currency in circulation and the contraction of retail trade interrupted the general tendency to bridge the gap between the volume of trade and currency in circulation that was inherited from the Second World War. Thus currency in circulation increased by 9.8 per cent, while trade shrank by 0.4 per cent.

Let us compare the growth of the physical volume of wholesale trade and demand deposits, which serve chiefly in clearing transactions. However, one must make clear at the outset that there does not exist such a close correlation between wholesale trade and demand deposits as, for example, between retail turnover and cash payments. Demand deposits represent mainly the liquid assets of monopolies and the propertied strata of the population. Moreover, only a portion of these deposits serves the needs of wholesale trade, and consequently affects wholesale prices. This represents, by and large, the accounts of industrial and commercial companies or private enterprises.

The following figures¹ provide a comparison of the growth of physical volume of wholesale trade and the total sum of demand deposits.

(in %)

	1939-45	1945-57
Wholesale trade	49.1	47.5
Demand deposits	154.3	45.5

During the war years, the sum of deposits greatly exceeded the growth of wholesale trade. These figures show that this gap remained unchanged in the post-war period.

A comparison of industrial production, wholesale and retail turnover, and money in circulation shows that the gap between them has been narrowed in the post-war period and in recent years. However, this narrowing should not be exaggerated since the increase in velocity of money in circulation must be taken into account. This is indirectly reflected in the annual rate of turnover of demand deposits. In New York banks, for example, it increased by 75.5 per cent from 1945 through 1954; and by 57.4 per cent for the six largest banking centres.¹ Thanks to the increased velocity of currency in circulation, the amount circulating could be expected to be reduced.

These data indicate that the increase in the amount of paper money, a large portion of which is attributable to the war-time period, considerably exceeded the needs of the U.S. economy and constituted the major cause of dollar depreciation and inflationary price rises.

At the same time, these figures indicate that growing industrial production, together with wholesale and retail trade, particularly in the post-war years, represented an important factor in checking inflation.

¹ *The Statistical Abstract of the United States*, 1953, 1958.

² Computed on the basis of data provided in *The Statistical Abstract of the United States*, 1958, p. 438.

Inflation has set the stage for a considerable rise in monopoly profits owing to the lowering of the real wages of the working people and the reduced incomes of farmers and the petty bourgeoisie.

However, at the same time, there have come to light the negative aspects of inflation, which threaten the country's political stability, the interests of some monopoly groups, and the stability of governmental finances as a whole.

The rise in prices and the threat to reduce real wages, particularly apparent in 1946-47, as well as during the Korean war, contributed greatly to sharpening the struggle waged by the American working class. From 1944 (which represented a high point in the level of wages) through December 1959, the average wages of workers in manufacturing industries almost doubled as a result of stubborn strike struggles. However, this nominal increase was almost completely eroded by increases in the prices of consumer goods. Real wages after tax deductions, as computed by the Bureau of Labour Statistics, rose by only 20 per cent during this same period.

The rising cost of living in the United States saw a growing wave of strikes, called forth largely by demands for high wages. Thus, while the average annual number of strikes during 1935-39 amounted to 2,862, the number of strikes in the post-war years ranged from 3.5 to 5 thousand a year.

Growing inflation, moreover, began to threaten the interests of banking circles, inasmuch as currency depreciation leads to the lowering of the real value of bank capital invested in government securities. This led to some important changes in the holding of government securities among the various financial and non-financial institutions, in particular, to a large increase in the share of government institutions and a reduction in the share held by commercial banks.

Distribution of the National Debt
(in %)¹

	Total public debt	Government agencies and credit funds	Federal Reserve Banks	Commercial Banks	Private individuals	Remaining holdings
1945	100	9.7	8.7	32.5	23.0	26.1
1950	100	15.2	8.1	24.0	26.0	26.7
1959 (December)	100	20.0	9.14	20.56	23.65	26.65

Hence, in the post-war period, the share of government institutions in holdings of U.S. government securities rose from 9.7 to 20.0 per cent, while the share of commercial banks fell from 32.5 to 20.56 per cent.

This signifies that in order to maintain the sale of government obligations to commercial banks, the government was compelled to increase the purchase of obligations by government financial institutions in order to support the stability of the national debt. It thereby had to employ governmental funds, which created additional difficulty in maintaining the public debt within given limits.

It would go too far afield to examine the disruptive influence of inflation on the reproduction process. It should be merely noted, however, that in recent times, before the onset of a crisis, many American economists and public figures began to recognise that inflation promotes the outbreak of a crisis, reinforcing the disproportionality between separate branches of production, stimulating artificial demand on an unhealthy basis, and promoting speculation.

For these reasons, the interest of American economists in the problem of inflation was greatly heightened. Their interest in the problem of inflation is primarily directed

¹ Computed on the basis of data from *The Statistical Abstract of the United States*, 1957, p. 388; *Federal Reserve Bulletin*, June 1960.

to its limitation with the help of various anti-inflationary programmes, including measures in the field of monetary and fiscal policy and direct government price control.

Does this indicate that the large group of American economists who support deficit financing and inflation have changed their attitude to inflation? By no means. The theory of regulating capitalism with the help of inflation, the general lines of which were worked out by Keynes and his American followers—Hansen, Hart, Harris, and others—presupposes the stimulation of inflation under certain conditions, and its limitation under others. This ambiguous approach to inflation reflects the contradiction in the very process of inflation itself. At early stages of this process, a price rise and inflated demand may, for a short period, cause an artificial boom in production. Precisely for this reason, when a crisis threatens the economy or has already broken out, many economists place such high hopes on inflation as a chief source of succour. That is the reason why the views concerning the “stimulating” and “revitalising” force of inflation were current before the war, when the United States was living through the 1929-33 crisis. This was followed by a depression and a new crisis in 1937-38.

The same thing repeated itself in the post-war period each time the country was threatened by a periodic crisis. It may be mentioned that under conditions of a war-time economy inflation achieved a new “dignity”. Inflation was justified as a convenient method of mobilising the country’s monetary resources and reducing civilian consumption.

“It would be a blunder,” Professor Summer Slichter wrote, “to attempt completely to balance the budget at this time, even though a deficit had appeared. A very high point (deficit—Ed.) is something one does not ordinarily desire. But one must take into account the fact that taxes are already quite high and one must take into account that inflation, moderate inflation, despite all of the things which

quite properly may be said against it, is not a bad method of taxation. It makes a lot of people pay taxes whom the politicians are not willing to tax.”¹ That is how Professor Slichter described this new “dignity” acquired by inflation. However, beyond certain limits, it becomes a horrible spectre for capitalism, revolutionising the masses, accentuating disproportions in production, and threatening the profits of individual monopoly groups. Under such conditions, attention is centred on the question of regulating, limiting, or “checking” the inflationary process.

The question of limiting inflation is not new in theoretical investigation. What is new is the “enrichment” of bourgeois theories of inflation in the post-war period, i.e., the theoretical justification of new methods of combating inflation, chiefly by fiscal policy and more recently by a combination of fiscal, monetary, and credit policies.

The American economist Albert Hart has written no few books concerning problems of a war-time economy, emphasising that the question of controlling inflation has much broader significance than simply that pertaining to the period of war: “Even in the absence of defence problems, we must remember, there is danger of creeping inflation, such as cut the buying power of the dollar by a quarter between 1899 and 1912.”²

The multitude of anti-inflation projects, schemes, and “models” represents the theoretical justification for the measures by which a bourgeois government seeks to hold inflation within those limits advantageous to the monopolies.

Before going over to a description of anti-inflation programmes, let us examine the basic theoretical assump-

¹ *The Commercial and Financial Chronicle*, August 31, 1950, p. 30. It may be noted that Slichter is one of the adherents of inflation not only in war-time, but also in peace-time. His attitude is that only a moderate rise in prices can create the necessary conditions for steady economic growth.

² Albert G. Hart *Defence and the Dollar*, New York, 1953, p. 3.

tions which American economists consider fundamental for the determination of the essence and reasons for inflation.

It would be an error to assume that all bourgeois economists close their eyes to the economic role played by inflation in promoting the redistribution of the national income, taking away a portion from fixed income groups and turning it over to those who dictate prices. This truth must be acknowledged even by the most zealous adherents of inflation, e.g., Slichter, Sommers, and Vickrey.

However, the latter affirm that a rise in prices is simply the lesser of evils. According to Slichter, for example, the maintenance of a stable price level would reduce the possibility of easing crises, and would result in chronic unemployment, even going so far as to handicap efforts to build up the "economies of the free world".¹

However, although recognising in most instances that inflation leads to an inequitable redistribution of the national income, these economists limit their investigation chiefly to the external aspects of this phenomenon—the relations between demand and supply, currency in circulation, prices, etc.

Those economists who examine the effect of inflation on the income of various social groups, e.g., Harris, in his book *Inflation and the American Economy*, present a distorted picture by setting up the working people on the same footing as the monopoly capitalists, as if they, too, dictate prices and thereby are not adversely affected by inflation.

In distorting the social content of inflation, which promotes the redistribution of the national income taking it from the working people and transferring it to the monopoly capitalists, bourgeois economists usually attribute inflation to an excess of demand over supply, which leads

¹ *Harpers Magazine*, August 1952, p. 54.

to a price rise (or expressing itself in the form of other phenomena if state regulation hinders such a rise).

Inflation "is a general, sustained, and rapid increase in the price level or—to put it in another way—a continuous decline in the purchasing power of money".¹ That is how the American economist Katona describes inflation in his work *The People Versus Inflation*.

"We shall define inflation as an increase in the price level of consumer goods, regardless of its basic cause or ultimate extent. Even small and short-lived price increases are included in the definition,"² writes Professor Clemence of Wellesley College, Pennsylvania.

Some economists, on this basis, seek to represent the entire economic history of mankind, or at the very least the history of capitalism, e.g., Professor Bronfenbrenner in his article "Some Neglected Implications of Secular Inflation",³ as a process of constant and everlasting inflation.

A rise in prices during the prosperity period is conceived of by bourgeois economists as an inflationary process.

"In the peace-time economy," writes Professor Clemence, "inflation is a characteristic feature of periods of prosperity." And, later on "inflation in the peace-time economy is simply one aspect of the regular operation of the price system."⁴ This proposition is defended on the basis that during the period of upswing, like under conditions of a war-time economy or mobilisation, the total volume of monetary income of the people grows as a consequence of the growth of investment and the increase in employment. Hence, increased demand for consumer goods leads to a corresponding increase in prices. Here

¹ G. Katona, *The People Versus Inflation*, Washington, 1952, p. 1.

² R. V. Clemence, *The Economics of Defence*, Harrisburg, 1953, p. 63.

³ *Post Keynesian Economics*, London, 1955.

⁴ R. V. Clemence, op. cit., pp. 64-65.

the author sees something in common between the prosperity phase and a war-time economy. In both instances, apparently, demand exceeds supply, as a result there is an increase in prices. As a matter of fact, however, the growth of demand during the prosperity phase cannot be equated with the increased demand during a war period, just as one cannot equate the expansion of production during peace-time, even if it takes place in Department I, with an expansion of military production.

Increased demand during the years of upswing is an increase in the monetary income of the people, reflecting an actual expansion of production. It is consequently a manifestation of real demand. In peace-time, the expansion of the production of means of production, in the final analysis, is bound up with the expansion of production of consumer goods. Consequently, an increase of money in circulation has behind it an increase in the production of goods, the value of which ultimately is manifested in the value of articles of consumption and will be paid for by the consumer through an increased quantity of circulating medium. Hence, notwithstanding the increase in demand and even the excess of demand over supply, money will remain at full value.

As for the growth of monetary income bound up with an increase in military production, behind such income is production which leaves the sphere of exchange of human activity. Labour expended in such production represents unproductive labour. Therefore, the increase in money in circulation does not signify an actual expansion of production. An increase in income is, to a considerable extent, fictitious, and money becomes depreciated.

As regards the causes of inflation, two viewpoints are widely current among American economists.

One of these—and this is objectively a correct point of view—argues that inflation is the result of increased governmental spending and the financing of such expenditures through an additional issue of paper money.

The second viewpoint, which is an essentially vulgar approach, is directed against the broad popular masses in its attempt to attribute such inflation to the working class and various segments of the working population. Many economists, while recognising that the growth of government spending is the primary cause of inflation, immediately slide into the second theory, the so-called "cost price spiral", i.e., a price spiral due to wage increases or "cost inflation". The essence of this "theory" is as follows: the workers organised in trade unions struggle for higher wages. Wage increases lead to higher costs of production, and therefore the employers are compelled to increase prices. The rise in prices, in turn, increases the cost of living. As a result, the workers lose the benefit of their gains and demand new increases in wages. And so this process continues, but on a higher level, and this results in an inflationary spiral. Hence, the workers themselves are guilty of high prices.

A. Hart has this to say about "cost inflation": "Even in the absence of over-all excess demand, certain forces on the cost side would push up prices of civilian goods. The most important focus of the cost push is wage boosting."¹

As regards the dangerous role of an inflationary wage spiral, Harris writes: "The rise of income in part is reflected in higher costs, and in part in increased demands. From both angles, the pressure on the price level rises."²

In analysing the reasons for price rises during the Second World War, Chandler concludes that undoubtedly this tremendous rise in wages, unaccompanied as it was by a similar growth in hourly output, constituted the chief factor in inflation.

The theory of "cost inflation" is fallacious on two counts.

¹ Albert G. Hart, *Defence Without Inflation*, New York, 1951, p. 65.

² Seymour E. Harris, *The Economics of Mobilisation and Inflation*, New York, 1951, p. 13.

In the first place, it is not wages which give rise to higher prices, but, on the contrary, a rise in prices which is the reason for the workers' battle for increased wages to maintain the elementary conditions for the reproduction of their labour power. As a rule, an increase in wages follows an increase in prices. An analysis of the strike movement in the United States, for example, will show that the chief cause of strikes is the demand for higher wages following on the heels of price increases. Thus, for instance, the so-called "escalator system of wages", which has been won by a number of trade unions, represents a graphic example of this process. Workers' wages, in accordance with this demand, would be raised only following an increase in the cost of living.

Secondly, the rise in wages is the transmuted form of the value of labour power, and by its very nature cannot cause a price rise. It is known that the value of any commodity consists in the transmitted and newly created value, with the magnitude of the latter dependent on the length of the working day and the intensity of labour. If the length of the working day and the intensity of labour remain constant, a change in wages can change only the distribution of newly created values between workers and capitalists. It can by no means alter the total magnitude of commodity value.

An increase in wages, consequently, reduces the rate of surplus-value, but does not increase the value of the commodities themselves.

An increase in the money value of wages either re-establishes the real wage of the worker at its former level, or leads to some increase which does not affect the value of a commodity, but merely reduces the capitalist rate of profit.

This proposition, which Marx advanced under pre-monopoly capitalism, maintains its force in the epoch of imperialism. True, monopolies have the possibility of selling their commodities at higher prices, the value and price of

production to the contrary notwithstanding. However, the opportunities afforded to monopolies to raise prices are nonetheless limited—they cannot be set at any purely arbitrary level. As regards increases in wages, monopolies are not always in a position to dictate a price level which will permit them to compensate themselves for a fall in the rate of profit brought about by such a wage increase. Moreover, one must take into account that the mass of small, middle-sized, and even large enterprises, which do not fall into the monopoly category are completely deprived of the possibility of dictating prices on their commodities. An increase in prices on the part of individual monopolies leads solely to a redistribution of profits among capitalists, to a sharpening of the contradictions between them, and to increased exploitation of the working class. But such a rise in prices by individual monopolies, as well as higher wages following trade union struggles waged by workers, is not inflationary in nature.

Monopolies promote inflation only in one sense: if they have ties with the government and dictate prices on their deliveries of military supplies. Government spending in such cases must rise, and it is precisely in this way that the inflationary process is promoted.

It should be noted that the theory of the inflationary role of higher wages is not new. It developed first during the general crisis of capitalism. Bourgeois economists in all countries, including those in the ranks of the Labour Party, made use of it as an argument against wage increases. During the Second World War and post-war period, it was caught up by American economists to shift responsibility for inflation on the working class, to justify various anti-labour bills aimed at hindering the strike movement, and to justify the “freezing” of wages and high tax policies.

Let us pass over to the most important aspects of anti-inflation measures advanced by bourgeois economics.

These measures are in the field of monetary and fiscal policy and direct government control. Fiscal measures include higher taxes and the introduction of new taxes; monetary and credit policies include the limitation of bank credit with the help of various types of direct and indirect regulations, as well as the stimulation of public borrowing. Direct government control includes price and wage controls, government subsidies for the purpose of "stabilising" prices, consumer rationing, etc. The main aim of these measures is to restrict the volume of money in the hands of the public.

American economists at present assign a highly important role to taxation as a means of combating inflation. Taxation is given preference even over borrowing, inasmuch as the latter, they feel, may lead only to a postponement of inflation. Jules Backman, for example, writes that the lack of desire or inability to pay for the cost of producing armaments through taxes is the main source of inflation in a war-time economy. Furthermore: "A heavy tax programme affecting all groups can prevent the accumulation of a large volume of liquid assets in the hands of consumers with the accompanying deferred price inflation in the post-war period."¹

Harris assigns a similar role to taxes in writing that "the increased taxes thus serve as an anti-inflationary force. Higher taxes are the tools of those who would stabilise the economy and yet preserve the free pricing system".²

Harris emphasises that the cause of inflation during the First and Second World wars was the insufficiently high level of taxation.

However, unanimity does not prevail among American economists on the anti-inflationary role of some taxes. A number of economists suppose that all taxes—income

¹ Jules Backman, *The Economics of Armament Inflation*, New York-Toronto, 1951, pp. 40-41.

² Seymour Harris, *op. cit.*, p. 13.

taxes, corporation taxes, and indirect taxes—have one and the same anti-inflationary effect. The American economist, Richard Goode, in his article "Anti-Inflationary Implications of Alternative Forms of Taxation", writes: "The traditional view that all taxes of equal yield have much the same anti-inflationary effect seems nearer to the truth than recent contentions that taxes differ greatly in this respect."¹

Other economists consider that this definition does not hold true for corporation taxes, indirect taxes, as well as a number of others. Since monopoly, by taking advantage of its economic might and favourable business conditions, may raise prices and pass on to the consumer the burden of increased taxes, or pay taxes out of undistributed profits and thus shift expenditures of the future to the present, a number of economists have explained these taxes as having an inflationary effect. This theory is advanced, in particular, by Gerhard Colm, who considers that high corporation taxes may be introduced only under conditions in which prices, wages, and investments are controlled. Otherwise, taxes on profits, he maintains, should not exceed 50 per cent.²

In his book *Inflation and the American Economy* Harris describes the inflationary role of indirect taxes and payroll taxes. He does not deny the fact that corporation taxes to some extent are compensated for by higher monopoly prices. He estimates that four per cent of the total price increases in the war period was caused by corporation policy, although he does not attach great significance to this, and in general considers taxes as an anti-inflationary factor.

The proposition that corporation taxes paid from undistributed profits have an inflationary character is fal-

¹ *American Economic Review*, May 1952, p. 160.

² Gerhard Colm, *Essays in Public Finance and Fiscal Policy*, New York, 1955, p. 109.

lacious and conceals the essence of monopoly. The expenditure of undistributed profits can increase the total amount of money in circulation. However, in fact, this is of limited significance. It is hard to conceive of corporations reducing their money reserves, which are necessary for future investment, over a long period of time and to any great extent. Monopolies, in such cases, prefer to raise prices, compensating thereby for lowered profits.

Price inflation and the shifting of taxes on to the consumer actually represent important elements in higher prices. However, in themselves, they are not inflationary. As already indicated, bourgeois economics defines as inflationary an increase in prices which is brought about by any cause. In the given case, an increase in prices can be called forth not by an inflationary factor, i.e., the depreciation of money, but by the active search for high monopoly profit. The opportunities for increasing prices are afforded, on the one hand, by monopoly domination of the production and marketing of an overwhelming share of the output in a particular sphere, and, on the other hand, by the specific phase of the business cycle, especially when the government demand for consumer and industrial goods has greatly expanded. Theories concerning the inflationary role of corporation taxes are employed for the purpose of protecting high monopoly profits. Their invariable conclusion is that higher corporation taxes serve no useful purpose and are even socially harmful.

Notwithstanding disagreement on the role of various types of taxes, all American bourgeois economists seem to be unanimous in supporting taxes on the broad sections of the working people.

Their argument is quite simple: since these strata of the population constitute the overwhelming majority and have the greatest "propensity to consume", their incomes should be curtailed in order to reduce inflationary pressure.

Harris, for example: "Insofar as taxation is used to reduce consumption, the tax system should be oriented towards curtailing the consumption of those with [annual] incomes of \$2,000 to \$10,000."¹

The basic planks of all anti-inflation programmes involve increasing taxes on the low income brackets of the population by lowering the minimum tax exemption level, by increasing the actual tax rates, and by introducing new taxes. The single aim of such programmes demonstrably refutes the argument concerning the "equitableness" of taxation in the distribution of the burden of military expenditures.²

During the Second World War, the minimum income tax exemption level was lowered by more than 50 per cent and, in 1945, amounted to \$500. This increased the number of tax payers from 4 million in 1940 to 42 million in 1944-45. Following the war, the minimum level of income not subject to tax was raised to \$1,200³. However, under conditions of rising prices this involved no real easing of the tax burden. The number of taxpayers, accordingly, did not decrease, but continued to rise. Thus, in 1951, following the opening of the war in Korea, there were 44.3 million taxpayers.⁴

The increased income tax rates affected more heavily the low income groups of the population. Income taxes, for instance, on persons earning more than \$100,000 annually doubled from 1939 to the close of 1951; while workers with no family paid 43 times as much in taxes, and a worker with 3 dependents paid 18 times the amount he would have paid in 1939.⁵

¹ Seymour Harris, *op. cit.*, p. 138.

² Backman, for example, asserts that under the tax programme the sacrifices can be allocated more equitably and the disadvantages of inflation can be avoided.

³ *The Economic Almanac*, 1956, p. 460.

⁴ *U.S. News and World Report*, March 19, 1952.

⁵ *Daily Worker*, September 3, 1951.

As a result of these measures, government revenue from individual income taxes rose enormously. In 1941, it had amounted to \$1,400 million, but in 1959 it rose to \$36,900 million.

A large portion of new taxes came from indirect taxes. Such taxes are particularly weighted, a fact which is recognised even by some bourgeois economists. However, many of them justify indirect taxes on the basis of decreasing the consumption of the broad sections of the working population. They regard them as an effective means of combating inflation. This "merit" of indirect taxes is described by Backman as follows: "Various types of consumption taxes also may be raised or imposed to increase the flow of revenues to the government. The major advantage of these taxes is that they fall with greater weight upon those with moderate and lower incomes and hence act to restrain consumption."¹

This evaluation of indirect taxes is sufficiently illustrative of the "equality of sacrifice" and the "equitableness" of the U.S. Government's tax policy.

Facts and figures demonstrate this even more graphically. In the *Economic Outlook* of May 1952, the following figures were published showing the spread of indirect taxes among various income groups (in 1948).²

Thus, a family with an income higher than \$7,500 annually paid 4.6 per cent of its income in indirect taxes, while a family with an income of less than \$1,000 paid 11.8 per cent of its income in this form. The total amount of sales and excise taxes has grown uninterruptedly. From 1941 to 1945, it rose from \$2,400 million to almost \$6,000 million. And in 1959, it had already reached the annual level of \$8,500 million.³

¹ Jules Backman, *The Economics of Armament Inflation*, p. 55.

² *Economic Outlook*, No. 5, May 1952, p. 36.

³ *The Statistical Abstract of the United States*, 1959, p. 368.

Per Cent of Total Income Paid for Taxes
(in 1948)

Under \$ 1,000	\$ 1,000- 1,999	\$ 2,000- 2,999	\$ 3,000- 3,999	\$ 4,000- 4,999	\$ 5,000- 7,499	\$ 7,500 and up
11.8%	9.1%	8.4%	8.4%	7.6%	7.1%	4.6%

In justifying the necessity for increasing taxes on the lower income groups, American bourgeois economists simultaneously oppose the raising of corporation taxes; they advocate either the direct reduction of these taxes or the introduction of special privileges, which amounts to the same thing. These demands are justified on the basis of two assumptions: in the first place, it is argued that taxes imposed on monopolies would be ineffective from the standpoint of anti-inflationary policy. "Further taxation of the highest income recipients", writes Chandler, "could not reduce inflationary pressures significantly, for members of this group were few in number, had only a small part of total disposable income, and used a considerable part of their disposable income for saving rather than consumption."¹

Secondly, it is maintained, that high taxes act as a brake on business activity, reducing the initiative of the entrepreneur, and lowering the "propensity to invest", etc.

This is the "justification" for a governmental policy aimed at easing corporation taxes. Among the various measures advanced to implement this policy, are: rapid amortisation of enterprises, thanks to which the portion

¹ Lester V. Chandler, *Inflation in the United States*, New York, 1951, p. 96.

of profits not subject to taxes is considerably increased; tax privileges in connection with the depletion of mineral resources, and a whole series of other legal exemptions, which reduce the tax pressure on monopolies. Much material devoted to this governmental policy is provided in a book by the two American writers, Walter Adams and Horace Gray.¹

It should be added that monopolies also were given back a portion of the taxes they paid on excess profits. For the period 1945-46 to 1953-54, for example, monopolies received \$23,200 million back from the government.

As a result of such partiality to the monopolies and the tax squeeze on the American working people, there is a systematic increase in the proportion of personal income taxes and decrease in corporation taxes constituting government revenue. Thus, during the eight years 1952-59, the proportion of personal income taxes rose from 45.5 per cent to 54.3 per cent, while taxes on corporations fell from 34.6 per cent to 25.0 per cent.²

Thus, it becomes quite clear that the argument in favour of taxation as the most "equitable" form of distributing the burden of military expenditures is completely demagogic. In the final analysis, the increase in taxes is distributed most inequitably, with the lion's share falling heavily on the working people.

Let us examine the part played by taxes with respect to inflation. Taxes, by their very nature, are not inflationary. But neither do they reduce money in circulation if the money gathered in the form of taxes is not withdrawn from circulation. Taxes, strictly speaking, play merely a neutral role. Money taken in by the government in the form of tax receipts will be expended in various forms of

¹ W. Adams and H. Gray, *Monopoly in America. The Government as Promoter*, New York, 1955.

² *The Statistical Abstract of the United States*, 1959, p. 367.

payment and, thereby, once again return into circulation. As a rule, American bourgeois economics ignores this fact.

However, one should not overlook another phenomenon. If the tax method of financing government spending gradually replaces the inflationary method, then the increase in taxes can impede the further swelling of the monetary system. Taken in conjunction with the most important factor promoting currency stabilisation—the growth of industrial production, this can lead to the gradual re-establishment of equilibrium between production and money in circulation. Consequently, an increase in taxes, although it in itself does not reduce the volume of money in circulation, under certain conditions (as indicated above) reduces the effects of inflation. It is, of course, quite another matter as to who bears the cost.

Another important consideration in anti-inflation programmes is the regulation of banking credit, which, by reducing credit, contracts the volume of money in circulation. American bourgeois economists distinguish between two types of banking control—"partial credit control" and "general credit control". Until 1951-52, when the first steps were taken after many years to institute a general control of credit, the anti-inflationary programmes provided for merely partial credit control designed to restrict the volume of certain types of credit for "unnecessary purposes". These restrictions related, on the whole, to consumer credit, credit for home building, i.e., that which pertains to the personal consumption of working people, as well as the purchase and sale of securities. Consumer credit restrictions were instituted by the U.S. Government during the Second World War, as well as following the beginning of military warfare in Korea. As a result of restrictions instituted during the war years, the proportion of consumer credit to the total volume of consumer expenditures fell from 11.3 per cent in 1939 to 4.5 per cent in 1945. Restrictions introduced after the

beginning of the war in Korea led to a reduction from 10.3 per cent in 1950 to 9.9 per cent in 1951.¹

Partial credit control was also applied to the purchase and sale of securities. From the very beginning of the Korean war the amount of one's own money required for the purchase of securities fluctuated between 50 and 100 per cent. However, this restriction did not extend to the purchase of government securities, which formerly was the chief source of "creating credit" in the United States.

Partial credit control, as the name itself indicates, represents partial measures. It aims to reduce the volume of currency serving mainly for the purchase and sale of durable goods, and thereby contracts demand and restrains inflationary price rises. However, since partial credit control excludes the general restriction of credit, the chief source of expansion of money in circulation (the crediting by banks of public debt) remains untouched.

An essential point in all anti-inflationary programmes is the policy of stimulating savings on the part of the population. Like taxes, this measure is called upon to withdraw a portion of the means at the disposal of the public. However, while taxes directly reduce incomes, and, consequently, the consumption of the working people, borrowing does the same by indirect means.

Bourgeois economists often allege that savings represent merely "deferred expenditures", which are of equal advantage to all sections of the population. Furthermore, such savings in the United States, it is claimed, take on a mass character.

What are the facts? Even during the Korean war, i.e., a period of greatest inflation, 31 per cent of all American families possessed no savings whatever (in 1953-55 26 to 29 per cent). Moreover, about 28-29 per cent of all families had savings up to \$500. Thus, more than one half of

¹ *The Statistical Abstract of the United States*, 1953, pp. 282, 452.

all American families either possessed no savings at all, or had inconsiderable sums in the form of savings.

The overwhelming mass of savings is concentrated in the hands of the upper brackets of the ruling class. During the Korean war and its aftermath, 8 to 10 per cent of all families possessed savings of \$5,000 or more. The 20 per cent of families with the highest incomes in the United States had almost 50 per cent of all savings.

As indicated by the journal of the Congress of Industrial Organisation in 1952 "... most American families in these times of high prices and taxes are lucky if they are able to make both ends meet; for millions it is absolutely impossible to lay anything aside. These families consider the 'wild savings spree' story a pretty cruel joke at their expense."¹

Thus, savings represent the "deferred expenditures" of the bourgeoisie and the highest paid white collar workers, but by no means the working people, who simply have nothing to save or whose savings are insignificant.

However, the point in saving is not merely for the bourgeoisie to safeguard its income in the form of securities. Their income grows as a result of interest paid on loans. The government annually pays a constantly increasing amount in the form of such interest. Up to the Second World War, this amounted to \$941 million, and in 1959—\$7,671 million.² Of course, a large proportion of such payments goes to those who concentrate the overwhelming amount of government securities in their hands. The tremendous interest payments considerably swell government expenditures, and thereby cause an increase in taxes needed by the government to meet its expenses.

Bourgeois economists frequently oversimplify the relation of borrowing to inflation. As a matter of fact, government borrowing evokes conflicting tendencies, in some

¹ *Economic Outlook*, March 1952, p. 17.

² *The Statistical Abstract of the United States*, 1959, p. 669.

cases ameliorating the inflationary process, and, in others, accentuating this process.

If borrowing is viewed as the transfer to the government of a portion of current income, the effect of such borrowing is analogous to taxes. The amount of money in circulation is not reduced thereby, but neither is it increased, since a mere redistribution of money has taken place from the public to the government. Borrowing, in this case, serves to check inflation, holding back a further increase of money in circulation.

But borrowing, in a certain sense, may contain within it the potential threat of future inflation. Insofar as the public debt increases interest payments on bonds and securities which become due, there develops a constant source of increasing money in circulation, not due to a growth in the demands of business turnover.

Any shock on the international scene which gives rise to panic among the people can cause an outbreak of inflation, even in the absence of a budget deficit. This can be due to a break in the market for government securities and a rush to convert them into money, and subsequently into commodities.

Such a situation occurred with the outbreak of the Korean war. The public was seized with panic and hastened to convert large amounts of government securities (savings bonds) into real values. In one year alone, from 1950 to 1951, the volume of savings bonds dropped \$500 million (from \$49,600 to \$49,100 million). This gave rise to an increase in money in circulation within the country, despite the fact that the budget showed a surplus in 1951.¹ The next point in an anti-inflationary programme is to institute direct control over prices. Most American economists support price control as a supplementary measure to monetary and fiscal controls.

The proponents of government economic regulation

¹ *The Economic Almanac 1956*, p. 409.

consider it undesirable, but inevitable when there is a grave threat of inflation. Hence, the introduction of price control is supplemented by a whole series of qualifications to give it such "flexibility" as will safeguard the interests of monopoly capital.

A prerequisite for price control, it is maintained, is the "freezing" of wages. Another, but no less indispensable condition, is the system of subsidisation of industrial goods. This is supposed to ensure the counter-balancing of rising costs of production under conditions of frozen prices. In an effort to conceal the class nature of subsidisation of monopolies, the authors of the book *War and Defence Economics* portray such subsidies as internal costs which society must bear in the interests of its defence. "The use of subsidies means a socialisation of the costs of increasing production since they are paid out of the general tax revenues."¹

Price control was in effect in the United States during the Second World War and was lifted in 1946. A second price control was instituted at the close of 1950 and continued until the beginning of 1953. Experience has shown that only in the sphere of wages has price control been strictly observed. Only a small section of the working class, through stubborn strike actions, was able to obtain higher wages, corresponding to the official cost of living index.

Subsidies provided one of the essential sources of monopoly profit. From 1941 through 1946, the government handed out \$9,500 million in subsidies. A large portion of these was given to companies in the non-ferrous metal industries in the form of premium bonuses added to the price of produce, manufactured above their quotas. From 1941 through 1945, premium payments to companies ex-

¹ Backman, Basch, Fabricant, *War and Defence Economics*, New York, 1952, p. 85.

tracting copper amounted to \$73.6 million, lead—\$36.8, and zinc—\$100.8 million.¹

Price control regulations, however, were accompanied by a tremendous number of "supplements" and "revisions", permitting price increases in those cases advantageous to monopolies. Such was the case during the years of the war. From April 1942 through May 1943, i.e., a year, the G.M.P.R. was allegedly amended 60 times; supplementary regulation M 14 to the G.M.P.R. 327 times . . . by the beginning of 1945 almost 600 price regulations and thousands of amendments had been issued. The G.M.P.R. alone is supposed to cover eight million items.²

Harris is then compelled to admit the following: "Despite the fact that the price administrator is supposed to fix prices . . . he is subjected to great pressure by industries, and through industries and firms by Congress, to introduce price adjustments upwards or to raise prices on ceilings in such a way that every businessman makes a higher profit".³

The period 1950-53 witnessed the same experience. The law for the general regulation of maximum prices ("ceilings"), issued in January 1951, envisaged the possibility of higher prices under the pretext of ensuring mobility and flexibility of prices in order to stimulate essential types of military and civilian production.

According to figures issued by the Office of Price Stabilisation, 510 regulations modifying the original law were issued during the period of operation of this law from January to October 1, 1951.⁴ Thus, under the cloak of price control, a constant rise in prices took place.

¹ Seymour Harris, *Price and Related Control in the United States*, New York, 1948, pp. 15, 62.

² *Ibid.*, p. 92.

³ *Ibid.*, p. 28.

⁴ Office of Price Stabilisation, Washington, 1951.

It should be noted that the anti-inflationary measures already enumerated (taxes, public borrowing, partial credit control and price control) were developed by American bourgeois economists chiefly on the basis of the practical policy of the U.S. Government conducted during the Second World War and the immediate post-war period. Later, largely after 1951, a new element appeared with ever increasing importance in anti-inflationary programmes—general credit and monetary control, providing for the restriction of banking credit as a whole. Discussion of general credit control appeared in American economic literature beginning with the 1951 agreement between the Treasury and the Federal Reserve Administration over the question of limiting banking credit. This stemmed from the refusal of the Federal Reserve Banks to support the prices of government securities.

Attempts to control the volume of money supply with the help of credit and monetary policies were made back in the thirties—however, under conditions of crisis and subsequent depression, this policy met with no success and was cast overboard.

The rebirth of this policy in the fifties was caused by two factors. In the first place, previously adopted measures to limit inflation proved to be of little effect and additional steps were necessary to reduce the total volume of banking credit.

Secondly, according to a number of American economists, credit control had acquired in the form of a huge public debt a new and extremely sensitive mechanism, by means of which the effectiveness of credit and monetary policy could be highly reinforced. The former basic objections to credit and monetary policies consisted in the fact that they demanded virtually impossible changes in the level of interest. However, at present the most inconsiderable change in interest has an important influence on the marketing of securities. With the raising of the discount rate by Federal Reserve Banks, commercial banks seek to

obtain the necessary reserves and therefore throw on the market various types of short-term paper, especially government securities. Should other banks purchase these obligations with their free reserves, there will be no increase or contraction of the money supply. The existent resources will simply be redistributed within the banking system.

An entirely different situation prevails when these securities are purchased by the Federal Reserve Banks. In such case, there is an increase in the money reserves of the commercial banks, which leads to an expansion of credit and an increase in money supply. The refusal of the Federal Reserve Banks to buy these obligations freely leads to the opposite result. A price fall on government obligations, a depreciation of banking capital invested in securities, and all the losses bound up with this compel the banks to curtail the sale of obligations and to restrict credit. Thus, everything depends on the policy of the Federal Reserve System on the open market—will it support prices on securities by purchasing them, or will it curtail purchases and thus allow prices to fall.

One of the first major works by American economists devoted to the problem of the general control of banking credit was Albert G. Hart's book *Defence and the Dollar*, written at the behest of the Committee on Economic Stabilisation. A supplement to this book contained a number of practical recommendations made by this Committee, which consisted of John M. Clark, Theodore W. Schultz, Arthur Smithies, and Donald H. Wallace.

Hart, together with the members of the Committee on Economic Stabilisation, recommended a combination of two basic instruments of control over the reserves of commercial banks: regulation of the discount rate, on the basis of which commercial banks received loans from the Federal Reserve Banks, and appropriate operations dealing with government securities on the open market. Thus,

under conditions of inflation, it was recommended that the discount rate be increased and the purchase of government securities on the part of Federal Reserve Banks be limited.¹

The realisation of credit and monetary policy, leaving aside all considerations of expediency and possibilities of application, is confronted with major difficulties. An important obstacle in this respect is the huge public debt—even though it is used as a mechanism for carrying out this policy. Restriction of banking credit leads to a fall in the value of government obligations. To safeguard the interests of the owners of large holdings of securities, the government must raise the amount of interest payments, thereby increasing the already enormous government outlays. An increase in payments on government securities amounting to only one per cent, for instance, would increase government expenditures by almost \$1,000 million. This represents a heavy burden on the budget, in view of the fact that the tax pressure has grown tremendously and the possibilities for new borrowing are limited.

Despite agreement achieved with respect to an independent policy to be pursued by the Federal Reserve system in the field of credit and monetary control, practical measures undertaken in the United States in 1951-52 were so ineffective that they led to no essential restriction of banking reserves, and consequently of banking credit. The authors of the "Recommendation in the Sphere of Credit and Monetary Policy" especially note that from March through December 1951, more than \$1,000 million was added to the reserves of securities in the Federal Reserve Banks and to the reserve deposits of the commer-

¹ It should be noted that Hart also has in mind a number of other measures for limiting banking credit—various credit quotas, raising the levels of necessary reserves, etc. But all these demand special legislation and cannot be applied at the present time.

cial banks, since the agreement itself required the Federal Reserve Banks to purchase, during a specified period, government bonds—although, it is true, on a reduced scale.

As a result, cash in the hands of the public (demand deposits and money in circulation) during this period increased 8 per cent, from \$172,500 million in March to \$186,000 million in December 1951.¹ Despite restrictions, the reserves of the member banks of the Federal Reserve system, increased from \$17,500 million to \$19,900 million by the close of 1951, in other words, an increase of \$2,400 million. By the close of 1952, the volume dropped \$100 million, but by the end of 1953 rose once more by \$190 million and almost reached \$20,000 million.²

Secondly, a still more serious obstacle hindering the realisation of this policy is U.S. economic instability, which leads to periodic crises of overproduction. Under conditions of crisis, e.g., 1953-54 and 1957-58, credit restrictions aggravate the difficulties of a capitalist economy, confronting it with following dilemma: if it restricts credit, the crisis is exacerbated; if it expands credit, inflation is encouraged. There is no way out of this contradiction. The crisis of 1957-58 and the subsequent depression accompanied by inflation threw the ranks of bourgeois economists into confusion. Praise for monetary and credit controls and a "hard" currency policy gave way to their criticism. At the present time, many American bourgeois economists, e.g., Seymour Harris, John Angell, Alvin Hansen, etc., criticise such a policy, but without proposing anything substantially new in the fight against inflation. Harris has voiced this point of view most eloquently in declaring that all of us (i.e., American economists) desire maximum growth of production and price

¹ Albert G. Hart, *op. cit.*, p. 192.

² *The Statistical Abstract of the United States*, 1954, p. 454.

stability, but no one can say that he knows how to secure either the former or the latter.¹

An analysis of the component parts of an anti-inflationary programme—taxation, partial and general credit control, borrowing, and price control—reveals its anti-popular and bourgeois nature.

Two important features are characteristic of an anti-inflationary programme.

In the first place, such programmes avoid the root cause of modern inflation arising from the tremendously swollen military expenditures. Hence, all of the measures advanced by the bourgeoisie are half measures, and merely palliative in character.

This does not preclude, of course, a restraining influence from being exercised by the proposed measures on the intensity and destructiveness of the inflationary process. But here another distinctive feature of inflationary programmes comes to light—all outlays bound up with such measures are shifted on to the backs of the working people. Their chief immediate aims are to reduce the incomes and lower the demand and purchasing power of the working sections of the population. The interests of the monopoly bourgeoisie remain untouched, and, in a number of cases, their profits are even increased, e.g., in the case of borrowing, price control, etc.

The anti-inflationary programme advanced by American bourgeois economists can somewhat check the further growth of the money in circulation within the country, staving off for a while the further depreciation of money and price increases. But it cannot eliminate the root causes of inflation, and this predetermines its limited nature.

A most important reason for inflation in the United States today is the colossal growth of unproductive ex-

¹ Seymour Harris, *Controversial Issues in Recent Monetary Policy. A. Symposium in Review of Economics and Statistics*, August 1960, p. 247.

penditures resulting from the arms race and the militarisation of the country's economy. Anti-inflationary measures in no way have tackled this constant source of inflation.

The threat of inflation is concealed likewise in the existence of a huge national debt. An important break in the market for government securities could lead to a sharp rise in money in circulation that is in no way connected with an expansion of business requirements.

Under normal conditions, the sale of government obligations by commercial banks and their purchase by Federal Reserve Banks, in the absence of strict credit restrictions, is a constant source of unhindered expansion of banking credit.

The necessity for financing military expenditures is the reason why anti-inflationary measures do not include this essential requirement—the withdrawal of surplus money from circulation.

Under conditions of a chronic deficit in the national budget, an increase in taxation, curtailment of credit for unessential purposes, public borrowing, are not forms of reducing the volume of money in circulation, but additional sources of financing government expenditures. The means thus obtained, once again return into circulation, but through different channels—payments for military deliveries, subsidies to monopolies, salaries for servicemen and employees in military enterprises, and a swollen state apparatus. Such measures merely cause a redistribution of means of circulation from the sphere of consumption of the working people into the sphere of personal and productive consumption of the bourgeoisie, thus increasing the demand for means of production. However, this reshuffle does not reduce the total volume of money in circulation.

The limited nature of anti-inflationary measures is also determined by the fact that the bourgeoisie is not basically interested in eliminating inflation, but solely in check-

ing it to some degree. Energetic measures against inflation would only lead to price decreases. And the latter would mean reduced monopoly profits, the curtailment of capital investment, and the growth of unemployment.

Thus, for example, Hart in his book *Defence and the Dollar* has pointed out that the struggle against inflation is considerably handicapped by the threat of unemployment. In his words, "The fear of unemployment stood in the way of needed anti-inflation measures in 1945-48 and again in 1950-51.... Anti-inflation measures take risks with full employment whenever the business situation is uncertain—and it is seldom certain."¹

The limited nature of anti-inflation measures is, in the final analysis, determined by the fact that inflation is viewed as a most important means of re-establishing economic equilibrium in a period of crisis.

Such are the basic factors, therefore, which determine the limited character of anti-inflationary measures advanced by American bourgeois economists.

In summing up the basic features of such programmes one might point out that the bourgeoisie makes use of the government apparatus and its legislation to limit inflation by lowering the standard of living of the working people.

At the same time, anti-inflation programmes are inherently partial in nature. They do not eliminate the root cause of inflation, which results from growing military expenditures. Moreover the constant threat of inflation is concealed in the policy of monopolies. Monopoly seeks to "regulate" inflation as a means of combating crises, in face of the fact that capitalist development is inevitably accompanied by periodic crisis of overproduction.

And no amount of "regulatory" measures, in the final analysis, can save capitalism from the destructive action of these crises.

¹ Albert G. Hart, *op. cit.*, p. 5.

**FUNDAMENTAL CONCEPTIONS OF
BRITISH BOURGEOIS ECONOMISTS REGARDING
MONETARY AND FINANCIAL QUESTIONS
IN BRITAIN TODAY**

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As a result of the Second World War, the position of Britain and her importance in the world capitalist system was considerably reduced. The British economy, up to the outbreak of war—with the exception of several “new branches”—was in a stage of stagnation. This was a logical outcome of the deep-going processes of parasitism and decay which followed from the possession of a vast colonial empire and monopoly rule. In addition, the operation of the law of uneven economic and political development of capitalist countries has played an important role. In the post-war period, despite some increase in industrial production, Britain has continued to be confronted by great difficulties, and at present her economic situation remains unstable.

Chronic weaknesses in the British economy, which are rooted in its structure, and the reduced role of Britain in the world capitalist system after the Second World War, found their concentrated expression in an undermined monetary and financial position, and in an acute currency crisis. Currency instability remains a characteristic feature of Britain’s economy today.

The weakened monetary and financial position of Britain in the post-war years had become so crystal clear that even British bourgeois economists could not conceal it, nor could other writers and official representatives of the British Government.

Thus, for example, even following a temporary improvement in the British monetary and financial position in the second half of 1952, an economic survey for 1955 presented to Parliament by the Minister of Finance in March 1956 gave the following unconsoling picture:

"At the beginning of 1956, the United Kingdom economy was still in an inflationary condition. Demand was pressing against the limits of productive capacities.... Costs and prices were rising, imports continued at an extraordinary high level, and exports were not rising enough to produce a satisfactory balance of payments."¹

The governmental survey of Britain's economic situation for 1957, published in April 1958, emphasised that "the economic climate is less inflationary than for several years, and this change has been reflected in the increased confidence in sterling.... However, there are other circumstances which give grounds for anxiety". Such circumstances included the loss of considerable amounts of gold and dollar reserves by the majority of the capitalist countries, with the exception of the United States and West Germany, a substantial fall in the prices of raw materials on the world capitalist market, and the curtailment of capitalist industrial production on a world scale. All of these factors either directly or indirectly reflected the economic depression in the United States and the growth of economic difficulties in other capitalist countries.

"Conditions in overseas markets are likely to be dif-

¹ *Economic Survey, 1954*, March 1956, London, p. 38.

ficult, and United Kingdom manufacturers will be able to succeed there only if they can keep prices down," it was noted by the survey with alarm.¹

During 1958-59, the monetary and financial position of Britain improved to some extent, despite the fact that her balance of payments position has worsened since the second half of 1959. On the other hand, the U.S. balance of payments has been in a state of deep crisis for the past three years. This undermines the international position of the chief rival of the British pound sterling—the U.S. dollar. Nevertheless, most British economists feel that the international money market developments making for the improvement of Britain's monetary and financial position are highly unstable. And they foresee—some more and others less definitely—the possibility of a new sharpening of the currency crisis.

Roy F. Harrod, a noted British economist, for example, wrote in the autumn of 1960 that "there are misgivings with respect to her (Britain's—D.S.) balance of payments. The fact that it is not in a completely satisfactory state is a consequence of the over-all influence of the worsened state of foreign markets in 1960 . . . and the final results of the successive abolition of import restrictions".²

Let us examine the specific facts and figures which have caused British ruling circles and their economists such alarm.

Some of the major indications of the monetary and financial crisis in Britain in the post-war years are the following: inflation, an unfavourable balance of payments (in particular, the balance of payments with the United States and the entire dollar area), unstable gold and dollar reserves, the constant threat of exhausting such reserves, the existence of currency restrictions, the dis-

¹ *Economic Survey*, 1958, London, April 1958, pp. 30-31.

² *Weekly Post*, No. 1, October 15, 1960, Roy Harrod, "The Prospects for Britain in Output and Trade", p. 43.

crepancy between official parity prices of the pound sterling as compared with the free and black market prices, and, finally, the devaluation of British currency in 1949 and fluctuation in the official exchange rate following devaluation. Let us examine these factors briefly.

* * *

Following the close of the Second World War, inflation did not come to a halt in Britain. At the same time, however, it had its own specific conditions and distinctive features. The following table illustrates the course of inflation in Britain during the post-war years (see p. 100).¹

Thus, in the post-war period (1945-57), the British national debt increased from £21,370 to £27,010 million, i.e., 26 per cent. The amount of money in circulation outside of banks rose from £1,260 to £1,840 million, or 46 per cent; and bank accounts from £3,130 million to £3,970 million or 27 per cent. The growth of money in circulation totalled 32 per cent.

At the same time, the velocity of circulation of money and circulating medium in commercial bank accounts increased enormously. This was primarily due to the abolition of various government war-time measures, which were aimed at restricting the output of raw material and equipment for civilian branches of industry and personal consumption. The lifting of restrictions led to war-time savings being directed into money circulation channels, causing commodity prices to become inflated.

However, inasmuch as this increase in the amount of money harks back to the war period, the immediate in-

¹ *The Times Review of Industry*, March 1958; *London and Cambridge Economic Bulletin*, New Series, No. 25, 1958, pp. XIV and XV; *Annual Abstract of Statistics*, No. 85, 1937-47, London, pp. 208, 226, 228, 245; No. 92, 1955, pp. 125, 256, 271; No. 93, 1956, p. 295; No. 94, 1957, pp. 130, 260, 278, 301; *Monthly Digest of Statistics*, No. 149, 1958, pp. 24, 108, 110, 123.

Year	Index of industrial production (annual average)	National debt (at 31 March in each year)		Currency circulation (annual average)		Total demand deposits (annual average)		Index of wholesale prices (annual average)*
		thous. mill. £	index	thous. mill. £	index	thous. mill. £	index	
1937	100	6.76	100	0.44	100	1.23	100	100 —
1945	—	21.37	316	1.26	286	3.13	254	156 —
1946	93	23.64	350	1.33	302	3.38	275	162 —
1947	99	25.63	379	1.35	307	3.69	300	177 —
1948	108	25.62	379	1.23	280	3.85	313	202 —
1949	114	25.17	372	1.24	282	3.94	320	212 —
1950	122	25.80	382	1.24	282	3.98	324	242 107
1951	126	25.92	383	1.29	293	4.10	333	294 125
1952	122	25.89	383	1.37	311	3.96	322	302 128
1953	129	26.05	385	1.46	332	4.00	325	302 125
1954	139	26.58	393	1.55	352	4.14	337	304 126
1955	147	26.93	398	1.66	377	4.11	334	314 130
1956	146	27.04	400	1.77	402	3.99	324	— 136
1957	149	27.01	400	1.84	418	3.97	323	— 140

flationary effect of this process in the post-war years can be regarded as a great acceleration of the velocity of money circulation. Unfortunately, there are no official data available to measure such an increase in velocity.

The volume of British industrial production during 1946-57 rose by 60 per cent. It should be noted, however, that the increase in industrial production took place largely as a result of expanding military production, the out-

* The left column refers to an old index, comprising wholesale prices on all commodities (data no longer published after January 1956). The right column contains new index figures showing the movement of wholesale commodity prices in manufacturing, exclusive of fuel, food-stuffs, and tobacco products (June 30, 1949 equals 100).

put of which was realised almost completely through clearing between government agencies and the monopolies and, consequently, did not flow into private commodity circulation; the output of several branches of civilian production did not expand but contracted.

Thus, the requirements of the economy during the period 1945-57 (in comparable prices) rose to a lesser extent than the general index of industrial production, and even fell (if the increase in velocity of money circulation more than covered the increase in commodity circulation). In view of the fact that new emissions of paper money took place and demand deposits expanded, one might suppose that the discrepancy between the level of paper currency in circulation and the level of economic requirements for money during these years increased, and this found its expression in the rise in prices. In other words, inflation in Britain during the post-war period grew still greater than during the war.

The wholesale price index in Britain during the post-war years doubled, while the index of wholesale prices from 1937 to 1945 rose only 56 per cent. This is explained by the fact that the doubling of prices in Britain during the post-war period resulted from a number of various factors. Along with the effect of internal inflation factors, relating to the post-war period proper, one may include: the "soaking up" of accumulated inflationary pressure on prices in Britain during the war years,¹ which extended for almost the entire post-war decade; and the "import of inflation" into Britain from the United States, and partially from other countries through the medium of foreign

¹ Reference is made to the tremendous increase during the war years of paper currency and total bank accounts, which at that time could not completely reflect their actual effect on the official wholesale price index because of various government measures limiting the allocation of material and equipment for civilian branches of industry and personal consumption, and because of government price control.

trade and the fixed exchange rate; the inflationary influence of the devalued pound in September 1949; and, finally, the influence of internal factors of a cyclical nature in Britain herself.

As can be seen from the above table, in 1951-54 wholesale prices remained more or less stable, on the basis of which one might suppose that inflation in Britain was called to a halt during these years. However, in 1955-57, a considerable increase took place in the wholesale price index. In the first half of this period, they can have, to a certain extent, reflected cyclical factors, e.g., industrial prosperity, mass renewal of fixed capital, the so-called "investment boom," etc. Since a considerable increase of the total quantity of cash in circulation took place during this period, there can be no doubt that the rise in the wholesale price index is evidence of increased inflation.

In the subsequent years, inflationary pressure continued to be felt. During 1957-59, the amount of cash in circulation increased from £1,840 million to £1,970 million, i.e., 7.1 per cent. Retail prices for goods and services rose 3.6 per cent during the same period, and there was a tendency for the wholesale price index to rise.¹ The danger of spasmodic inflation remains an integral part of British economic life.

A still more graphic picture of the extent of inflation in Britain can be obtained by comparing statistics on money in circulation in 1957 with, for example, 1937.

From 1937 to 1957 the British national debt (internal and external) rose to four times its initial level; the amount of currency in circulation increased to 4.2 times; the total amount of bank accounts to 3.2 times; and the total amount of money to 3.5 times. During the same period, the volume of industrial production rose only 49 per cent, or to 1.5 times its initial level. It should be noted, moreover, that the increase in industrial production was

¹ *Monthly Digest of Statistics*, No. 177, September 1960, London, pp. 122, 134, 137.

attained to a considerable degree as a result of the expansion of military production.

This inundation of the channels of money circulation and other media of payments led to monetary depreciation, which found its expression in the growth of commodity prices. For the period 1937-55, the wholesale price index in Britain rose to over 3.15 times its initial level.

* * *

The British balance of payments situation in the post-war period reflects the economic difficulties of British imperialism and its undermined position in the capitalist world economy. In addition, the balance indicates that British ruling circles are continuing their imperialist policy with respect to the peoples of other countries in opposing all liberation and progressive movements, and, on the other hand, are offering stubborn resistance to U.S. imperialist expansion. This sharpens still further the struggle between British and U.S. monopolies.

During the twelve post-war years (1946-57) the total balance of payments deficit of Britain amounted to £2,718 million. A breakdown of the crisis "charges" is offered in the following table (see p. 104).¹

The U.K. balance of payments with the dollar area was in an even greater state of unbalance. While the total unfavourable balance of payments for current operations with the entire world amounted to £83 million during 1946-57, the unfavourable balance of payments with the countries of the dollar area amounted to £2,779 million for current transactions during the same period.² And the deficit in the balance of payments was chiefly attributable to that with the countries of the dollar area.

¹ *Annual Abstract of Statistics*, London, HMSO, No. 94, 1957, pp. 235-38; *United Kingdom Balance of Payments 1955 to 1957*, April 1958, Cmnd. 399, p. 5.

² *Annual Abstract of Statistics*, No. 94, 1957, pp. 237-39; *United Kingdom Balance of Payments 1955 to 1957*, April 1958, Cmnd. pp. 8, 13.

United Kingdom Balance of Payments for 1946-57 in Summary Form*

Items	In million pound sterling	In % of total
Balance of visible trade	— 2,828	—
Balance of invisibles**	+ 4,765	—
Balance of Government overseas debits and credits	— 2,020	—
Current balance	— 83	3.1
Intergovernment loans by U. K.	— 15	0.6
Subscriptions to the International Mone- tary Fund and the International Bank for Reconstruction and Development .	— 560	20.6
Private capital exports from U. K. . . .	— 1,677	61.7
Reduction (—) of overseas sterling hold- ings in U. K.	— 302	11.1
Changes in U. K. official holdings of non- dollar currencies—increase (—) . . .	— 28	1.0
Changes in gold and dollar reserves—in- crease (—), decrease (+)	— 53	1.9
Total	— 2,718	100.0
Foreign "aid"	+ 875	32.2
Intergovernment loans to U. K.	+ 1,062	39.1
Credits in the International Monetary Fund (in the form of exchange of sterling for dollars)***	+ 645	23.7
Credit in European Payments Union (increase in debt)	+ 136	5.0
Total	+ 2,718	100.0

* The data in the entire summary table is given in net value,
i.e., as a balance.

** "Invisible items" usually refer to all current items of the
payments balance, with the exception of receipts and payments
for foreign trade ("visible" earnings and expenditures), namely:
receipts and payments on overseas investments; shipping; tourism
and other travel; transfer of emigrants, legacies, etc.; various "ser-
vices" and other receipts and payments.

*** Included also are small sums representing changes in sterling
accounts belonging to several other international organisations.

However, that is not the entire picture. As is known the gold and dollar reserves of Britain simultaneously represent the central reserve of the entire sterling area.¹ The unfavourable total balance of payments of the U.K. with the dollar area for the period 1946-57 amounted to £2,832 million and the total dollar deficit of Britain and the entire sterling area with the dollar area, as well as with other countries (including the increase in gold and dollar reserves) amounted to £4,631 million for the same period.²

From the above data concerning the balance of payments, one can see that the gold and dollar reserves of Britain increased in total by £53 million during the period 1946-57, and this figure covered only 2 per cent of the total excess of overseas payments above the foreign exchange receipts during the given period. However, in order to appreciate more fully what lies behind this general balance, it will be necessary to examine in greater detail the direct movement of British gold and dollar reserves in the

¹ In addition to the holdings of Britain herself, as well as new receipts of gold and dollar currency resulting from accounts with the dollar area, in this fund are to be found "dollar earnings" and gold from the overseas members of the sterling area, with the exception of their own rather small gold reserves. On the other hand, the funds to cover the unfavourable balances of other countries of the sterling area with the dollar area, as well as the deficits incurred by all sterling countries, including Britain, with those countries not part of the dollar area but which demand coverage in hard currency are drained from the gold and dollar reserves of the U.K. The combined gold and dollar reserves of all countries of the sterling area have been called the "dollar pool of the sterling area". After the establishment of convertibility in a number of capitalist countries in December 1958, the central reserves of the sterling area include their currencies in addition to dollars.

² *Annual Abstract of Statistics*, No. 94, 1957, p. 239; *United Kingdom Balance of Payments 1955 to 1957*, April 1958, Cmnd. 399, pp. 8, 13.

post-war period. The latter is illustrated by the following data (at the close of the year).¹

U. K. Gold and Dollar Reserves

	1939 31.VIII	1945	1946	1947	1948	1949	1950	1951
In £ mil.	605	610	664	512	457	603	1,178	834
In \$ mil.	2,455	2,476	2,696	2,079	1,856	1,688	3,300	2,335
	1952	1953	1954	1955	1956	1957	Change at the close of 1957 in per cent of 1945	
In £ mil.	659	899	986	757	762	812	+ 33	
In \$ mil.	1,846	2,518	2,762	2,120	2,133	2,273	— 8	

It is clear from the table that of the 12 post-war years, an increase in reserves took place during only 6 of these years, i.e., 1946, 1950, 1953, 1954, 1956 and 1957. During four of these years the increase was insignificant. The relatively small total reduction of British gold and dollar reserves during 1946-57—8 per cent (and in terms of sterling, it even increased 33 per cent due to the revaluation of reserves in connection with the devaluation of the pound sterling) is explained chiefly by the military inflationary prosperity and the large inflow of gold and dollars during 1950, as well as by U.S. "aid" and credits received from the United States and the International Monetary Fund and, finally, by purchases of gold for sterling from the countries of the sterling area. Hence, despite the relatively small decrease in the gold reserves of Britain during the indicated period, the necessity for using these

¹ *The Banker*, January 1946, p. 11; *Annual Abstract of Statistics*, No. 94, 1957, p. 241; *Monthly Digest of Statistics*, No. 149, 1958, p. 115.

reserves to cover Britain's unfavourable balance of payments and the constant threat of their exhaustion were characteristic features of the British economy during the entire post-war period.

Britain's share in the gold reserves of the capitalist world in 1937 amounted to 16.3 per cent, in 1950—8.2 per cent, and at the close of 1957—4.1 per cent. This compared with 60 per cent of the world's capitalist reserves held by the United States.¹

Thus, during the entire period 1950-57, Britain's share in the total world capitalist gold reserves fell even further. By the close of 1959, Britain's share rose to 6.2 per cent, and the U.S. share dropped to 48.5 per cent.² However, almost one half of the "gold hoard" of the capitalist world is in the hands of the United States and represents a further deepening of the contradictions and conflicts within the capitalist system.

The growth of gold and dollar reserves in the hands of Britain during 1952-54 by no means indicated that Britain fundamentally could overcome her crisis in balance of payments and achieve financial stability. For this was attained basically as a result of temporary and artificial factors, e.g., import restrictions, U.S. military "aid" and loans, increased sterling indebtedness (including to countries of the dollar area), etc. However, all these pump-priming measures could not but damage in the long run the country's balance of payments and economy as a whole.

The weakness and instability of Britain's international financial position came to light back in the second half of 1954 when a new sharpening of the currency crisis began. Britain's balance of payments with all countries for current operations showed a deficit once again in 1955, amounting to £115 million, as compared with the previous

¹ *International Financial Statistics*, September 1958, p. 15.

² *Ibid.*, December 1960, p. 22.

favourable balance of receipts over payments amounting to £180 million in 1954. The deficit in Britain's balance of payments with the dollar area for current operations increased from £122 million in 1954 to £230 million in 1955, i.e., £108 million, or almost double. The dollar deficit was made up by reducing the central gold and dollar reserves of the sterling area to £897 million, or 30 per cent, from July 1954 to the close of December 1955.¹

The sharp worsening of the currency and financial situation in Britain during the second half of 1956 was the direct outcome of the aggression against Egypt and its economic consequences. The big drop in oil deliveries after the outbreak of hostilities in the Middle East and the closing of the Suez Canal compelled Britain to increase purchases of fuel in the dollar area, particularly in the United States. In addition, the influence of the "oil hunger" on production, especially the export branches of industry, the growth of overseas military expenditures, as well as shipping charges, and finally, the reduction of currency receipts by British oil companies—all had an adverse effect on the balance of payments, particularly with the dollar area. It undermined confidence in the pound sterling, caused a panicky outflow of "roving capital" from Britain, and reduced sterling holdings belonging to non-sterling countries. The total financial losses of Britain abroad connected in one way or another with the Suez adventure was estimated at more than \$1,000 million for the period November 1956 through April 1957.²

At the same time British monopolies increased the export of long-term capital abroad. Finally, a deterioration of the balance of payments took place between the other

¹ *Annual Abstract of Statistics*, No. 94, 1957, pp. 235-36, 241; *United Kingdom Balance of Payments 1955 to 1957*, April 1958, Cmnd. 399, pp. 5, 8, 13.

² *1957 Pick's Currency Year-book*, Pick Publishing Corporation, New York, 1957, p. 310.

sterling countries and the rest of the world. As a result of these influences, Britain lost much of its gold and currency. Britain's gold and dollar reserves, which had risen to \$2,405 million at the close of July 1956, fell to \$1,965 million by the end of November 1956. This was the lowest level reached since 1952.¹

In the autumn of 1957, the British currency position again deteriorated. In the third quarter of 1957, a large unfavourable balance of payments was created. In August alone, the deficit amounted to \$425 million.² The unfavourable balance in the European Payments Union rose in August to £63.5 million (\$177.8 million). Britain's total indebtedness to the countries of E.P.U. grew to £126.5 million by the end of August.³ The rumour gained wide currency in capitalist financial circles of a possible increase in the exchange rate of the West-German mark, on the one hand, and the devaluation of the pound sterling, on the other. These rumours called forth a new panicky wave of short-term capital flowing out of Britain and speculation in the financial market on a reduction in the exchange rates of the pound sterling. As a result of this, British losses of gold and dollars amounted to \$14 million in July 1957, in August—\$225 million, and in September—\$292 million. During these three months, Britain's gold and dollar reserves dropped from \$2,381 million to \$1,850 million, i.e., 22.3 per cent.⁴ They dropped even lower than in November 1956, i.e., immediately after Britain's aggressive actions against Egypt.

Seeking a way out of these difficulties, British ruling circles undertook a number of extraordinary measures aimed at strengthening the financial and monetary posi-

¹ *Monthly Digest of Statistics*, No. 138, 1957, p. 113.

² *БИКИ*, Russ. ed., September 10, 1957, p. 6.

³ *Board of Trade Journal*, Vol. 173, No. 3164, 1957, p. 616.

⁴ *The Banker*, No. 381, 1957, p. 621; *The Financial Times*, October 3, 1957.

tion of the country. On September 19, 1957, the Bank of England announced an increase in the discount rate from five to seven per cent. Capital investment in the nationalised branches of production and municipal expenditure were curtailed. In essence, these measures were aimed at saddling the burden of the crisis on the backs of the working people.

A substantial improvement in Britain's balance of payments took place in 1958. For the first time in many decades a favourable balance of visible trade amounting to £91 million (F.O.B. prices) was achieved. The favourable balance of payments for current transactions with all countries rose from £229 million in 1957 to £345 million in 1958, or an increase of 51 per cent. A considerable improvement also took place with respect to Britain's current operations with the dollar area (from an unfavourable balance of £100 million in 1957, to a favourable balance of £49 million in 1958). As a result of this improvement, Britain's gold and dollar reserves rose from £812 million at the close of 1957 to £1,096 million at the close of 1958, i.e., £284 million.¹ However, this improved currency position was, to a considerable degree, the result of an accidental convergence of a number of favourable circumstances, consisting chiefly of a fall in the prices of raw materials on the world market linked with an economic slump in the United States and greater economic difficulties in several other capitalist countries. Hence, it is by no means evidence of a solution to Britain's monetary problems.

Indeed, this was revealed in 1959, when Britain's balance of payments became much less favourable. Thus, payments for imports once again exceeded export receipts by £60 million in the course of the year. And the favourable balance of payments for current transactions with

¹ *United Kingdom Balance of Payments 1957 to 1960*, October 1960, Cmnd. 1188, pp. 6, 9, 13.

all countries fell to £139 million, or 60 per cent. In order to meet a number of international financial obligations and as a result of the export of private capital, Britain once more experienced an outflow of gold and foreign currency from her central reserves, which shrank by £119 million and amounted to £977 million at the close of 1959.¹

During the first half of 1960, the state of Britain's balance of payments continued to worsen: payments for imports exceeded receipts on exports by £27 million, whereas the first half of 1959 had shown a favourable balance; the favourable balance of payments for current transactions fell to £35 million, as compared with £116 million in the corresponding period of the preceding year. True, the country's gold reserve increased by £56 million, but this was due to the exceptional inflow of speculative short-term funds linked with the high bankers' discount rate in Britain.² The flow of "hot money" covered up the deterioration in her balance of payments and temporarily more than compensated for its influence on the country's gold reserves. In contrast to the initial post-war years, the new currency crisis in Britain is more probably cast not in the specific form of a "dollar hunger", as was then the case, but rather in the form of undermined stability of the state of the country's over-all balance of payments with the entire world.

Thus, the weakness of Britain's financial positions abroad, the instability of her balance of payments, the periodic sharp outbreaks of currency crises are typical of the British economy in the post-war years.

* * *

¹ *Ibid.*, pp. 6, 13.

² *United Kingdom Balance of Payments 1957 to 1960*, October 1960, Cmnd. 1188, pp. 6, 9, 13.

A symptom of the decline of Britain's financial and monetary position in the post-war period and the weakened state of the pound sterling was the appearance of a plurality of exchange rates, the existence of lower—as compared with the official rate—quotations of British currency on the free and black markets, as well as the lowering of the official exchange rate in 1949.

The considerable disparity between the various quotations of the pound sterling on the free and black markets during the early post-war years and the official exchange rate (at that time \$4.03 to £1) is explained by the fact that the official rate was not realistic, i.e., it did not correspond with the actual value of the pound sterling in terms of dollars. But this spontaneously asserted itself on the world capitalist money market.

The pound sterling free exchange rate of "transferables" in New York (i.e., the most representative free exchange rate of the pound since the greatest number of pound transactions took place here) up to the devaluation of 1949 stood 24-37 per cent lower than the official parity price. This testified to the fact that the official rate during this period was overquoted and unreal with respect to the dollar.

In the second and third quarters of 1949, a sharp aggravation of the currency crisis took place in Britain. This exacerbation was tied primarily to the development of an economic crisis in the United States. The sharp deterioration of Britain's balance of payments, the tremendous and rapid increase in her dollar deficit resulted in the fall in the exchange rate of the pound sterling on the free and black money markets abroad, and the undermining of confidence in British currency.

U.S. ruling circles took advantage of the economic decline in Britain to bring about the devaluation of the pound on September 18, 1949. The official rate was reduced from \$4.03 to \$2.80 for £1.

The following shows the movement of the exchange rate of the pound sterling with respect to the dollar in the world capitalist market (see p. 114).¹

These statistics enable one to draw the following conclusion:

First, of the seven years, beginning in 1951, since the British officially permitted certain market operations, in the pound sterling, there were only three years (1951, 1954, and 1956, taking these quotations at the close of the year) when the official rate of the pound sterling with respect to the U.S. dollar was lower than parity. And then it gravitated towards the lower limit of market fluctuations, sometimes almost reaching that limit; while support even at that level, was attained solely as a result of the maintenance of currency restrictions in Britain and at the expense of reductions in her gold and dollar reserves, which were constantly subject to sharp fluctuations.

Secondly, despite the fact that the free exchange rate of "transferable" pounds sterling (the most important rate on the free market) was gradually approaching the official rate (at the close of 1951, the disparity between these two rates amounted to almost 12 per cent, and at the close of 1957—only 0.6 per cent), nevertheless it did not reach the level of the latter. Characteristically, the British authorities had begun to support the rate of "transferable" pounds sterling from February 1955 on at a level 1.4 per cent lower than the official parity of the pound sterling. However, even at this level the exchange rate of the pound sterling from "transferable" accounts on the free market was periodically subject to strong assaults because of speculative pressure and, particularly in 1956-57, was maintained solely through currency in-

¹ Sources: *International Financial Statistics*, January 1955, pp. 132-33; November 1958, pp. 240-41; *Pick's Currency Year-book*, 1957, pp. 314-18; *Pick's Currency Year-book*, 1958, pp. 338-41.

Exchange Rates of the Pound Sterling with Respect to the U. S. Dollar During 1949-57
 (In U. S. dollars per pound at the close of the year)

	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958**
Official exchange rate*	2.80	2.80	2.78245	2.8100	2.81125	2.7850	2.80375	2.7856	2.8094	2.80685
Free exchange rate of "transferable pound sterling" in New York	2.49	2.61	2.455	2.730	2.775	2.721	2.774	2.7495	2.7920	2.7910
Quotations represent- ing foreign assets ("security sterling") on the free market in New York . . .	—	1.98	2.370	2.645	2.738	2.732	2.748	2.6175	2.7450	2.775
Exchange rate of "com- pensating transac- tions" with payment in London, on the black market in New York	2.38	2.52	2.39	2.65	2.69	2.68	2.71	2.62	2.64**	2.69
Free exchange rate of "transferables" in New York in per cent of official rate . . .	88.9	93.2	88.1	97.2	98.6	97.8	98.9	98.7	99.4	99.4

* Average between buyers and sellers quotations for cable transfers at the close of the year.

** At the close of September 1958.

tervention which caused Britain large losses of gold and dollars.

In December 1958, the British Government established partial convertibility of the pound sterling and equated the rate of "transferable" pound sterling to the official exchange rate. However, in view of the fact that the obligations of the U.K. abroad as regards sterling accounts greatly exceed its gold and dollar reserves, this step is fraught with grave consequences in the event of a sharpening of the economic crisis.

Finally, although the period under review witnessed a certain amount of convergence of the "quotations" on the free and black markets (e.g., at the close of 1950 the rate of "transferable" pound sterling was approximately 7 per cent, and sterling currency representing foreign assets in Britain ("security sterling"), more than 29 per cent, lower than the official rate, while during 1953-55 the two latter exchange rates were approximately at the same level), nevertheless complete correspondence of the different exchange rates of the pound sterling, and elimination of the black market in sterling currency, did not take place. Moreover, the rate of the pound sterling in foreign blocked securities on the free market in New York, as well as quotations of British currency on the black and "grey" currency markets, which during 1953-55 more or less approximated the official rate, in 1956-57 (up to the beginning of the fourth quarter of 1957) again fell considerably.

All these facts show that British ruling circles were not able to achieve during the post-war years such changes in the country's economy and international economic ties that would permit British imperialism to strengthen its currency substantially over a long-term period.

"Britain's balance of payments," admits the *National Institute of Economic and Social Research*, "is still weak, and the change of trends abroad will not help it." Looking into the future, the journal writes with unconcealed

alarm: "The outlook for the balance of payments is uncomfortable. Our exports persistently do worse than those of our competitors. They are not likely to rise now that there are signs of incipient recession abroad."¹

* * *

Although representatives of the ruling classes as well as bourgeois economists and sociologists recognise, in one way or another, the existence of a crisis in the British monetary and financial system during the stage of imperialism, they would hasten to the patient's bedside to "cure" him. To this end, they have evolved a multitude of plans and programmes to fortify the British position in the world capitalist financial sphere. Questions of money circulation, credit, finance, currency, and international payments are enthusiastically dealt with in the British press and in economic literature, overshadowing and pushing into the background such key problems as that of capitalist reproduction. This recalls the words of Marx that during the "violent storms in the world market wherein the conflict of all the elements of the capitalist production process discharges itself", bourgeois political economists seek "the origin and cure ... in the most superficial and abstract sphere of this process, the sphere of money circulation".²

No single view, to be sure, prevails in Britain with respect to monetary and financial problems, nor a single foreign economic policy, most especially with respect to currency questions. The theories and programmes of various individual and group representatives of the British ruling class, as well as British bourgeois economists, are highly contradictory. Discarding the various distinctions in shade and hue, and the superficial differences between

¹ *National Institute Economic Review*, No. 11, September 1960, pp. 10, 15.

² Karl Marx, *Capital*, Vol. III, Moscow, 1959, p. 535.

many of these theories, one may discern two basic approaches taken by the British bourgeoisie and economists with regard to strengthening the currency position of Britain, her economic and monetary policy, and measures to avert or combat the outbreak of a currency crisis.¹

When confronted by a significant deterioration in the balance of payments, or a sharp currency crisis, with the threat of a drain on gold and currency reserves, a capitalist country has the following alternatives to choose from: a) stabilisation or still better a reduction in domestic prices brought about with the help of governmental measures artificially checking the business activities, i.e., the domestic monetary and credit policy known as "deflation"; b) reducing the exchange rate of the country's currency, in other words, devaluation, or a series of devaluation measures; c) direct curtailment of imports and other foreign operations requiring payment in foreign currency, with the help of currency control and import quotas, applied either as blanket restrictions or to a country or group of countries chiefly involved in the unfavourable balance of payments. British economists are divided into two major groups with respect to monetary and financial questions, depending upon which of these methods of combating a currency crisis they place greater emphasis.

One of these trends includes R. G. Hawtrey, a very prominent British economist of long standing, as well as J. Downey, a noted economist and adviser to the Exchequer and M. F. Scott, an economist from Oxford University,

¹ It should be noted that since the present analysis of bourgeois economics and economic policy is limited to a single, relatively narrow sphere, i.e., currency and finance, the dividing line between these two trends will not necessarily coincide with the lines of demarcation between the traditional schools of bourgeois political economy. Thus, representatives of different schools of thought may be proponents of one and the same viewpoint and, conversely, members of the same school may, on particular questions, adhere to antithetical views.

in addition to a number of economists who contribute to the publication of the Big Five banks of the city of London, e. g., *Lloyd's Bank Review*, *Westminster Bank Review*, and also to the *Banker*. They see the root of all evil in internal inflation, which they attribute to the "inordinate consumption" of the public, "extravagance", and immoderately high standard of living of the working people. Hence, their "positive" programme of decisive measures to combat inflation by curbing consumption on the part of the working people, i.e., a domestic monetary and credit policy of "deflation".

This school of bourgeois economics supports a policy of maximum "currency stability". Hence, it excludes the possibility of a new devaluation of the pound sterling under any conditions, as a means of overcoming the currency crisis. On the other hand, it displays no enthusiasm for an upward revaluation of the West-German mark, or other currencies of Western Europe—measures which have been widely discussed in recent times. These economists feel, apparently, that such moves might weaken the position of the pound sterling on capitalist foreign exchanges.

In connection with the deterioration of the U.S. balance of payments and the large drain of gold from the United States in the years 1958-1960, rumours have been widespread in capitalist countries concerning a possible rise in the price of gold and a devaluation of the dollar. As a result, a flight from the dollar took place, as well as a rise in the price of gold, which assumed considerable scope particularly in October 1960. The proponents of this school are torn between two fires with regard to this question: on the one hand, of course, they welcome this development as a blow to the dollar—the chief rival of the pound sterling; on the other hand, they fear that, with the appearance of increased crisis phenomena today, dollar devaluation would not end there, but might ricochet and become a prelude to a repetition of the "currency

war" of the thirties, with its deleterious effect on British currency. Hence, several economists in this school do not insist on a rise in the price of gold and dollar devaluation in the present stage, and a number of them are even to be found in the camp of the opposition to such measures. However, many of these economists and businessmen have expressed their conviction that, from the standpoint of comparability of purchasing power of the dollar and the pound sterling in their respective internal markets, the official rate of exchange of the pound sterling was set somewhat low following the 1949 devaluation. On this basis, they argue, under favourable conditions it would be in order gradually to raise the value of the pound sterling.

The principle of "currency stability" presupposes support for stable, fixed rates of exchange. Nevertheless, among these economists a trend exists favouring the re-establishment of an independent pound sterling, "detached" from the American dollar; and the return of British independence in matters concerning the determination of her currency exchange rate.

This trend supports the maximum practicable free convertibility of the pound sterling. However, in view of the fact that restoration of convertibility is fraught with the grave threat of a deterioration in Britain's balance of payments and a rapid drain on gold and dollar reserves (e.g., as occurred in 1947), as well as the undermining of the integrity of the sterling area and Britain's own economic sovereignty, these economists set as preconditions: the replenishment of the country's currency reserves and the consolidation of her financial position abroad, as well as the retention of a certain measures of governmental currency control even after the re-establishment of convertibility. Furthermore, they advocate a gradual transition to currency convertibility to take place in stages, with the observance of greatest caution and circumspection.

Such a policy, it is maintained, will best achieve the chief aims of British finance abroad: on the one hand, promotion of the dependence of the currencies of British Commonwealth countries (excluding Canada, which is in the dollar area) upon the pound sterling, consolidation of the sterling area, and the checking of centrifugal tendencies; and, on the other hand, expansion of the sphere of employment of the pound sterling for international payments and accounts beyond the sterling area, enhancement of London's role as an international financial and banking centre, embracing the sterling area, as well as other capitalist countries.

Of interest in this connection is a statement in the *Bulletin of International Finance* of New York University: "London has the facilities, institutions, and the talent to handle all kinds of international financial transactions. An indispensable prerequisite of an international financial centre is stability of the national currency and a free foreign exchange market."¹ This approximates the position of the British ruling circles and economists representing this trend, which seeks, through the proper choice of monetary policies, to strengthen the standing of the pound sterling in the foreign exchange markets of the capitalist world and to enhance its position in international payments and accounts, particularly at the expense of the U.S. dollar.

Another trend in British bourgeois economic theory dealing with monetary and currency problems is represented by such noted figures as Roy F. Harrod, P. Einzig, D. Macdougall, J. Meade, as well as numerous younger economists, such as, A. Day, R. Neild, A. Shonfield, H. Liesner, etc. This school holds that disturbances in the monetary mechanism of Britain in the post-war period— inflation, the unfavourable balance of payments, the

¹ *Bulletin of International Finance*, Institute of International Finance, New York University, October 28, 1946, p. 13.

existence of a dollar deficit over a long period, the worsening of conditions of foreign trade, instability of the foreign exchange rate of the pound sterling—are all a reflection or consequence of a general weakening of Britain's economy and the strengthening of the economic position of the United States in the post-war years, of the reduced importance of Britain in world economic affairs, and the undermining of her position in many export markets.

Open competition under present conditions, according to this view, offers little hope for success in the struggle against U.S. and other monopolies. Hence, they oppose the principles of "equal opportunity", "free competition", and "multilateral trade", which the rulers and bourgeois economists of America advocate so insistently. They consider it necessary to subordinate all trade, tariffs, and monetary policy to the interests of trade expansion, the struggle for markets, the surmounting of the British balance of payments crisis, and changes favouring a greater share in world trade. In the words of the *Economist*, the organ of British business, "... it will require the use of every possible bargaining weapon in the armoury, of every trump card in the pack".¹

In contradistinction to the first trend, these economists consider it more important to employ *foreign currency* measures to combat the monetary crisis. The basic cure for the currency instability of Britain, they feel, will be attained by strengthening her economy—a steady substantial rise in industrial output, the reconstruction of the production mechanism and marked improvement in the competitiveness of British goods in world markets. Deflationary measures, according to them, serve only to retard industrial development and reconstruction, and deepen the country's currency and economic difficulties.

Recommended by these economists is the highest pos-

¹ *The Economist*, December 15, 1945, p. 850.

sible exchange rate for the pound sterling at all times, because a drop in the rate of exchange invariably worsens the terms of trade and causes material losses. However, maintenance of such rates is desirable only to the point where it begins to exert a negative influence on the competitiveness of the country's commodities. Consequently, they do not exclude the practicability of a new devaluation of British currency as a means of acquiring markets in the event, for example, of a deterioration of Britain's position in the world capitalist market and sharpened rivalry, especially under conditions of a new serious U.S. economic crisis in which the maintenance of a high rate of exchange becomes impossible.

Economists such as Harrod and Macdougall of this school, for example, favour the raising of the official price of gold and the devaluation of the dollar, as an important means of solving the balance of payments question. However, many other economists, e.g., Day, Neild, Meade, J. Robinson, are opposed to raising the price of gold and dollar devaluation, fearing, apparently, that this could undermine the competitiveness of British goods in the world market in a deteriorating economic situation. At the same time, almost all the economists of this school whole-heartedly favour an upward revaluation of the West-German mark, as well as the currencies of a number of other West-European countries, in view of the fact that the low rate of exchange of these currencies reacts negatively on the competitiveness of British goods, particularly in the West-European market.

British economists of this school demand the restoration of British independence in monetary policy, the abandonment of fixed "dollar parity" of the pound sterling, the return to Britain of the unrestricted freedom she enjoyed prior to the creation of the International Monetary Fund, the right to make changes in the exchange rate of her currency independently on the basis of competitive conditions in the capitalist world market, the right to establish

any currency restrictions. Several of them (Meade, Liesner) propose the establishment of a free rate of exchange for the pound sterling, which will respond to the fluctuations of supply and demand. They claim that in this way the British economy will be able to adapt itself to conditions in the world market, to regulate the balance of payments, and to avoid the necessity for returning to a deflationary policy, which is so much of a brake on the economy.

Thus, both schools of thought proceed from the fact that in principle it is preferable for Britain to keep the highest possible rate of exchange and to enjoy complete freedom with respect to its maintenance or change. However, they differ as regards their general approach to the problem, as well as to methods designed to achieve the proposed aims. The first school considers that the exchange rate must be raised, with inflation controlled and the pound sterling strengthened domestically. This rise, in turn, would serve to enhance the prestige and extend the influence of the pound in the world market. Economists belonging to the second school feel that prerequisite for the raising of the exchange rate of the pound sterling is a strengthened British industry and economy, as well as favourable conditions in the chief markets. Moreover, they do not regard a higher exchange rate as an irreversible process, but take into consideration the possibility of its being lowered in a changed situation. Revaluation, they feel, should be subordinated not to the interests of monetary expansion, but rather to its *immediate* economic effect—increased advantages of foreign trade. Similarly, devaluation should be viewed as a direct instrument for increasing exports.

In contradiction to those economists whose main emphasis is placed on the manipulation of the rate of exchange, other British economists in this school, e.g., Harrod, Day, Neild, Shonfield, consider currency control and direct import restrictions to be the most effective means

of acquiring markets, achieving a relative equilibrium in the balance of payments, and more advantageous terms of trade, and of avoiding a drain on gold reserves. Hence, these economists, more or less consistently, generally favour import and currency restrictions, and oppose the complete restoration of free convertibility of the pound sterling into dollars or other hard currency, as well as the removal of discriminatory measures in the fields of foreign trade and currency payments.

Thus, for example, in 1946, Paul Einzig pointed out that acceptance of the U.S. demand for convertibility of the pound sterling confronted Britain with the "likelihood of a much more pronounced disequilibrium than that of the late twenties and early thirties, that it deprives this country of the means to safeguard its balance of payments by means of bilateral and regional currency arrangements and exchange control...."¹

In those instances where the economists and business interests of this school accede to the demand for "liberalisation" of Britain's international economic relations, they insist at all costs on keeping such a policy within certain limits, and realising it in stages over a lengthy period of time. They urge, above all, the retention of monetary and import restrictions in principle, and the right to fall back on such instruments of monetary and trade policy in case of necessity.

Both schools of thought consider a strengthened sterling area necessary to counteract U.S. economic expansion. However, in contradistinction to the first school, which would achieve this by stabilising the pound sterling and increasing its weight and "prestige" with respect to other currencies, the second trend is not content with the mere open competitive struggle in the world capitalist market and the "free play of spontaneous economic forces." Instead, it would directly impose Britain's policy par-

¹ *The Banker*, January 1946, p. 13.

ticularly upon the countries of the British Empire, as well as other capitalist and underdeveloped countries, by way of intergovernmental relations.

The sterling area is by no means presented as a spontaneously formed and juridically amorphous grouping of countries which, by virtue of their economic dependence on Britain, maintain accounts, and keep their reserves in pounds sterling and which follow in the footsteps of the British pound in all its "vagaries". Rather is it conceived, in the words of the *London Banker*, as "an instrument of economic warfare; a battering ram with which to open the door to unwilling markets; a spiked fence of discriminatory devices with which to keep unwanted goods from unwanted sellers out of the Empire market."¹

As a radical solution to the problem of international liquidity and the unstable balance of payments, a number of economists in this school have evolved a plan to create a new international accounts and payments organisation, or to reorganise the International Monetary Fund in the spirit of the Keynesian "international clearing union". This would provide a practical intergovernmental mechanism of world accounts similar to the former European Payments Union, and an organisation empowered to "create", and not only redistribute, international credit (Day, Neild). It would also support the exchange rates of its member states, and counteract the disorganising influence on the payments balance and exchange rates caused by the speculative movement of short-term capital between countries, through constant intervention in the world money market (Liesner). It is self-understood, of course, that British influence in such an organisation must substantially increase, and U.S. influence be reduced from that enjoyed by it in the present International Monetary Fund.

Essentially, therefore, this view maintains that a state should *directly* employ all measures of monetary policy

¹ Quoted from *The Business Week*, July 7, 1945, p. 116.

to expand its foreign trade, to compete in the struggle for markets and spheres of capital investment, to overcome instability in the balance of payments, to obtain the most favourable terms of trade, to stimulate business prosperity within the country, and to increase the rate of capital accumulation. Thus, the possibility is even foreseen of sacrificing, in case of necessity, the standing and prestige of the pound sterling in foreign exchange markets.

The existence of these two major viewpoints, or trends, among British ruling circles, public figures, economists, and writers is also recognised in Britain. Thus, for example, the noted Labour economist G. D. H. Cole described the Bretton Woods Conference¹ as follows:

"On the question of Bretton Woods British opinion was sharply divided. Some favoured it, especially in the City, which sets a high value on international monetary stability; some opposed it, especially among those who regarded national freedom of financial regulation as indispensable for the pursuance of full employment."²

The monetary and fiscal problems, which evoked sharp

¹ The Bretton Woods Conference—Allied monetary conference, which took place in July 1-22, 1944 in Bretton Woods, U.S.A. Among the decisions of the conference the Bretton Woods Monetary Agreement provided for the establishment of an International Monetary Fund. The member states of the Fund were obliged to maintain, in the interests of U.S. ruling circles, the exchange rate of their currencies in terms of gold and U.S. dollars. These rates were not to be changed without the consent of the Fund. Furthermore, currency restrictions on current operations were to be eliminated, free convertibility of currencies into dollars was to be established, and a multilateral system of payments between member states was to be set up. As compensation for such concessions involving the surrender of independence in monetary and fiscal policy, the member states were given indefinite promises of foreign currency to be made available in exchange for their local currencies to cover temporary deficits in their balance of payments.

² G. D. H. Cole, *Money, Trade and Investment*, London, 1954, p. 379.

conflict in the ranks of the British bourgeoisie in connection with the Bretton Woods Agreement, are not transitory in nature. As previously, they continue to divide British capitalists, economists, statesmen and public figures into two trends, which are engaged in constant polemics.

What interests lie behind these two approaches to monetary and fiscal problems?

The first viewpoint is supported by economists largely representing the following interests: first, the financial oligarchy of the City, the big banking monopolies which are vitally interested in the greatest expansion of international operations in London concerned with medium and short-term paper, acceptances, as well as brokerage, payments and transfer transactions. Secondly, finance capital and imperialist groups concerned with the export of capital, those having big investments in the sterling area and elsewhere, particularly in petroleum extraction and refining, since the stability of the pound sterling is an important factor in the growth of capital exports (especially in the sterling area) and the great profitability of foreign investments. Thirdly, British monopolies in primary products, insurance and shipping companies, and law offices, i.e., those monopolies and companies whose rate of profit is directly dependent upon the volume of such transactions handled by London. Finally, those industrial monopolies which are especially dependent on deliveries of primary products from overseas lands.

The second school of British economic thought claims that its chief interest is to promote such aims as the development of the country's economy under new conditions of world competition, to stimulate capital accumulation, to further technological progress, and to maintain full employment, i.e., it is concerned with the over-all national interests rather than the sectional interests of the financial oligarchy of the City. In fact, however, under the capitalist mode of production, this viewpoint reflects

chiefly the interests of the big industrial monopolists, whose profits largely depend on exports.

As far as the two major political parties are concerned, the first school of thought finds greatest support within the Conservative Party. And, although proponents of the second trend are to be found in both parties, its most consistent followers are Labourites, such as, the late G. D. H. Cole, Joan Robinson, and T. Balogh.

Despite the fact that the Labourites hold common views with the bourgeois economists belonging to this trend in their evaluation of the reasons for Britain's monetary difficulties and in their practical recommendations of monetary policies designed to overcome them, the Labourite economists differ from the latter in their initial premises. The Labour Party economists are guided by reformist sociological theories, although a number of those in the Left wing come up with rather sober economic and political views which deserve further attention.

* * *

Let us first examine more closely some of the major viewpoints of bourgeois economic thought in present-day Britain in the field of monetary problems.

An example of the first trend is presented in Ralph G. Hawtrey's book *Towards the Rescue of Sterling*.¹ According to this noted bourgeois economist, the basis of inflation and of difficulties in the balance of payments lies in excessive spending—personal as well as productive, i.e., expenditures over and above that provided by current industrial output (at the expense of the curtailment of the country's commodity reserves, either in industry or trade, and an excess of imports over exports).

¹ R. G. Hawtrey, *Towards the Rescue of Sterling*, London-New York-Toronto, 1954.

Diminishing commodity reserves and a growing deficit in a country's trade balance cannot go on indefinitely. Capitalists, and especially those in the field of trade, generally seek to prevent a reduction in inventories and even to increase them during periods of prosperity. As a result, the market shows an excess of effective demand over supply. And since this demand cannot be met, it leads to an increase in the prices of industrial commodities.

The pressure of effective demand calls forth (via commercial capital) an increase in the volume of industrial orders. This, in turn, leads not only to the full utilisation of industrial capacity and the elimination of unemployment, but even to the creation of "overemployment", which permits the workers to obtain wage increases. It is precisely this rise in wages, which the workers wring from the capitalists, that provides, according to Hawtrey, the point of departure and decisive factor in the inflationary process. Wage boosts, on the one hand, are the chief cause of increased purchasing power, first for consumer goods, and through them for means of production. On the other hand, they increase the cost of production of commodities. Hence, the increase in wages, according to Hawtrey, simultaneously encourages capitalists to raise prices, by having caused a rise in the costs of production, and opens up the possibility of doing so, because it creates an excess of demand over supply. The sum total of this process is a general rise in commodity prices, i.e., greater inflation.

"It is the rise of prices," writes Hawtrey, "that is popularly identified with inflation. But underlying the rise of prices, and preceding it, is the excess spending. Excess spending here means spending (whether on consumption or capital enterprise) in excess of income."¹

But, on the other hand, argues Hawtrey, in an effort to avert a reduction in commodity reserves and to cover

¹ R. G. Hawtrey, *op. cit.*, p. 13.

demand, businessmen greatly expand the volume of imports from abroad. Industry, overloaded with domestic orders, is not in a position to compensate for expanded imports with a corresponding increase in exports. Delays in the filling of foreign orders place British exporters at a disadvantage as compared with those of other countries, undermining their position in world markets, which adds to the difficulties of expanding the volume of British exports. Thus, excessive spending is also a cause of difficulties in the balance of payments.

Hawtrey maintains, therefore, that the weakness of Britain's monetary and financial position is chiefly due to excessive spending in the spheres of both personal and productive consumption. Consequently, the remedy, according to him, is to correct the situation in precisely this area. "What is likely to be an urgent problem in the near future," declares Hawtrey, "is the immediate need for a fiscal policy and a credit policy which will put an end to excess spending, and to the inflation and adverse balance of payment which it causes."¹

Excessive consumption at any particular moment is possible, according to Hawtrey, only when entrepreneurs and consumers either possess on that date (in cash or in bank accounts) money which they can freely spend and which exceeds in amount their current receipts on any preceding date, when consumption is taken as "normal", or when they have available the possibility of freely lending money. Spending in excess of current income on a national scale at any particular time presupposes either the presence of cash over and above that required for servicing the process of distributing this income on the basis of immediately preceding prices, or the possibilities of freely "creating" new money. Hence, to reduce consumption and lower the demand for commodities on the part of entrepreneurs and consumers, a certain amount

¹ R. G. Hawtrey, *op. cit.*, p. 144.

of money must be withdrawn from the population and bank credit must be restricted. With this as his point of departure, Hawtrey has elaborated a programme of concrete measures in monetary, fiscal, and credit policy, aimed at reducing money in circulation.

One of the measures suggested by Hawtrey is the systematic floating of government loans. This must be done in such a way as to avoid the issue of new media of circulation and payment; it must be realised at the expense of existing savings in the hands of businessmen and various other strata of the population.

However, government bonds purchased chiefly by capitalists have, according to Hawtrey, the shortcoming of diverting resources away from productive investment and, thereby, to a certain extent, hold back and restrict capital accumulation. Should this process go too far, it could substantially retard the growth of industrial production and reduce a country's economic potential. On the other hand, the major source of inflationary effective demand stems, according to Hawtrey, not from the entrepreneur but from the consumer, i.e., chiefly from the working people. Accordingly, he puts forth his second proposal, which he considers the more important one, namely, high taxes. The brunt of these, moreover, are to fall not on the profits of the capitalists, but on the incomes of the working people.

Increased taxation and government loans, from Hawtrey's standpoint, will ensure the possibility of meeting government expenditures, chiefly military, without the danger of inflation.

However, the siphoning off of the excess portion of the total money supply in cash and current accounts by means of taxation and loans is, according to Hawtrey, only one side of the question. To obtain a stable reduction in demand on the part of producer and consumer alike, it is necessary to restrict to a certain extent opportunities for acquiring money, or else the anti-inflationary effect of

increased taxation and loans will be reduced to nought by the creation of new checking deposits. Hence, Hawtrey's third proposal: credit restriction.

"Excess spending," he writes, "can be prevented, and therefore an adverse balance of payment avoided, by sufficiently severe checks upon the supply of money."¹ Credit restriction, to his way of thinking, must be achieved through an increase in the Bank rate.

Difficulty in obtaining credit, according to Hawtrey, will induce industrial and commercial establishments to reduce their swollen inventories, as well as the volume of orders placed in industry. Since industry is overloaded with orders, no noticeable drop in production or employment will initially take place. Subsequently, credit policy must be geared to support a volume of industrial orders on the part of trade that corresponds to the volume of current sales. In this way, argues Hawtrey, a minimum "acceptable" level of inventories and "normal" level of unemployment should be maintained. The main instrument of such a credit policy should be a flexible bank rate which meticulously reflects all of the changes in the business cycle.

Here is how Hawtrey formulates his proposed measures to strengthen Britain's monetary and financial position:

"Redundant money should be eliminated by taxation, combined with loans calculated to attract the long-term investor, and credit should be so regulated as to prevent a recrudescence of redundant money or of excess spending."²

These measures, Hawtrey feels, should lead to a situation when utilisation of the means of production and the consumer goods of a country and, thereafter, the demand for them are lowered to the level where they will be basically covered by current output at constant prices. Oppor-

¹ R. G. Hawtrey, *op. cit.*, p. 41.

² R. G. Hawtrey, *op. cit.*, p. 117.

tunities for new capital accumulation for each enterprise taken individually will be governed by the amount of money and credit available to it, and will correspond to the savings potential of the country as a whole, i.e., to the total capital resources available at any particular time. Such a situation, says Hawtrey, will have two very important consequences.

On the one hand, there will be a contraction of effective demand and orders, the "abnormal overloading" of industry will be eliminated, and to a certain extent the level of employment and wages will be reduced. All of this will result in a reduction of commodity prices on the market, in other words, the partial or complete elimination of inflation.

On the other hand, imports will drop in volume. At the same time, reduced domestic demand will provide the opportunity to switch over a portion of industrial capacity to the production of goods to be marketed abroad. The reduced pressure on industry will permit it to fulfil orders from abroad more quickly, and this will strengthen the position of its overseas exports. As a result, according to Hawtrey, the balance of payments of Britain will be stabilised with respect to the dollar area and the world as a whole, enabling her to abolish import and currency restrictions and restore complete currency convertibility for the pound sterling.

Hawtrey's views, it should be noted, enjoy wide circulation among bourgeois economists who conceive of inflation as any increase in commodity prices as a consequence of excessive demand. The price level, according to Hawtrey, is completely dependent upon the effective demand, which, in turn, is wholly determined by the amount of currency in circulation, bank deposits, and credit availability. Such an approach to inflation serves two main aims.

First, viewing the form of inflation—increased demand and rising prices—as its essential feature disregards the specific scientific content of this process: In a word, the

direct or indirect oversupply in a bourgeois state of the channels of circulation with excess amounts of depreciated paper symbols of value, which is used by the ruling class to shift the burden of military and other government expenditures on to the backs of the working people and to redistribute the national income to their advantage. To attribute inflation to "extraordinary" spending, public consumption, seems basically incorrect from our point of view. A rise in workers' wages, cannot be the cause of an inflationary rise in prices. On the contrary, the workers' struggle to raise wages is a reaction to inflation expressed in price rises. Thus, one can observe that wages, as a rule, lag behind increases in the cost of living resulting from inflation. Consequently, the justification for demands to restrict and reduce wages, advanced by monopolies and many bourgeois economists, including Hawtrey, as necessary to combat inflation, cannot bear scientific criticism. The sole source of such demands is the selfish interests of big monopoly in its search for "excessive" profits at the expense of the working people, its attempt to saddle the workers with the main burden of monetary and credit stabilisation measures. In practice this inevitably resolves itself in a sharp class struggle between proletariat and bourgeoisie.

In fact, the root cause of inflation in post-war Britain is her policy of acting as major partner of U.S. imperialism in such military blocs as NATO, the arms race, militarisation of the economy, as well as the irrepressible search for monopoly profits. According to official data, Britain's outlays for military purposes, as a member of the North Atlantic Alliance, totalled \$30,094 million during 1949-56.¹ Such colossal expenditures are the major source of inflation in Britain.

Second, since effective demand depends directly and exclusively on a country's money supply and credit sys-

¹ *The Globe and Mail*, October 2, 1957, p. 6.

tem, one might infer the possibility of "regulating" demand and the business cycle, "smoothing" out cyclical fluctuations, and avoiding crises within the framework of the capitalist mode of production with the help of state policy in the sphere of money and credit. Here, Hawtrey is in complete harmony with Keynes, whom he corroborates.

Hawtrey borrows Keynes' approach, which he offers as the "key" to the solution of the most acute economic problems of capitalism, namely, the "regulation" of production through active state intervention in the field of money and credit. But he purports to achieve opposite results with the help of this "key". Whereas Keynes set himself the task of stimulating demand for commodities and supporting the level of industrial production and employment, Hawtrey, on the other hand, calls for a definite curtailment of demand under the conditions set forth in his book, the elimination of cyclical "overextension" and "overemployment" in industry, and the increase of employment within certain limits.

In actual fact the demand for commodities is determined in the final analysis, not by the state of the money and credit system, but by the movement of the cycle. The latter, in turn, is determined by the inherent contradictions in capitalism between the social character of production and the private capitalist form of appropriating the fruits of production. Consequently, the cyclical nature of economic development and crises cannot be eliminated under capitalism.

Hawtrey unjustifiably attributes the adverse balance of payments of Britain, and consequently the "dollar hunger" to "excess spending", overimporting, overloading industry, "overemployment", inflation, i.e., phenomena mainly rooted in the internal economy (and what is more, chiefly related to currency circulation and credit) and basically attributable to "extravagance". To make the picture of Britain and the capitalist system as a whole

more rosy, he would have us believe that the competitiveness of British goods abroad and questions of foreign markets do not represent serious problems for Britain. Post-war business conditions in the world capitalist market, according to Hawtrey, were favourable for Britain. Moreover, the export situation was also favourable from the standpoint of the exchange rate of the pound sterling with respect to the dollar. If, despite these circumstances, British exports foundered on dangerous reefs, and the country showed an adverse balance of payments, this was all due to the notorious state of "excess spending", and "overburdened" industry in the internal market.

Hawtrey's viewpoint, in the last analysis, is inimical to the interests of the broad masses of working people. Here is the thread of his argument. National income expenditures are drawn from the following three elements—personal consumption, capital formation (accumulation of capital), and military expenditures. National interests make it necessary to maintain military expenditures at a level no lower than the present one. Capital formation, i.e., capital accumulation, also must not be substantially reduced, since this would cut down the country's economic potential. Hence, the sole remaining possibility of eliminating inflation and surmounting the crisis in the balance of payments is by reducing personal consumption. The question then becomes how much deprivation can be imposed upon the nation without endangering the existent capitalist structure.

Reduction of personal consumption and effective demand for consumer goods, according to Hawtrey, is to be achieved chiefly through increased taxation. He questions the advisability of a direct reduction of British workers' wages under present conditions, in view of the opposition that would be rallied from "both the forces of democracy and those of organised labour".¹ At the same time, he recog-

¹ R. G. Hawtrey, *op. cit.*, pp. 142-43.

nises that, as a result of an increased Bank rate, the restriction of credit will lead to a rise in unemployment. Hawtrey maintains that a state of "full employment" presupposes the existence of a certain number of unemployed. He bases himself on the views of Lord Beveridge, who considered an unemployment rate of 3 per cent as normal for a capitalist society. Hawtrey, apparently, hopes that a rise in unemployment even to this "normal" level will lower the manpower demand, increase competition on the labour market and, therefore, lead to a direct cut in wages.

In reply to such views, we must note the following:

First, the continuation of Britain's military expenditures at the present extraordinarily high level is absolutely unjustified by present circumstances. It is clear that no country threatens to attack Britain. The Soviet Union and other countries in the socialist camp formally and consistently adhere to the Leninist policy of peaceful coexistence between countries of differing social and political structures and patiently seek to solve all outstanding international problems by peaceful means, through negotiations and mutual concessions. The myth of "aggressiveness" by the Soviet Union and the socialist camp has been fostered by the rulers of Britain to justify their bloc policy, which they pursue in conjunction with U.S.A. and other imperialist states, as well as their high level of military expenditures. Hence the thesis that the level of Britain's military spending is not subject to reduction represents the chief flaw in Hawtrey's analysis. For it is precisely the unrestrained arms drive that is the scourge of Britain. A substantial reduction in her enormous military expenditures is a first step toward placing the British economy on a sound footing.

Secondly, it is completely incorrect to speak in the same breath of consumption by the working people and consumption by the well-to-do. For, whereas the former occurs on a very low level and, in a number of instances, is scarcely sufficient for the normal maintenance and re-

production of labour power and leads to the premature sapping of a worker's vitality, the latter is characterised by superabundance. The nature and extent of consumption by any particular class is determined by the source of its income. Thus, consumption by the working people is based on income from labour, while consumption by capitalists is drawn from profits, including those derived from military contracts. And military spending by a state is generally conceded to be a major source of inflation. Consequently, the working people quite justifiably demand that the excess money in circulation which necessarily must be withdrawn to combat inflation should come not out of their pockets, but from the money sacks of those who have profited from inflation. The workers, therefore, struggle to shift the main burden of taxation, which constitutes the bulk of these means, from their wages and other forms of income, over to the incomes of Big Business and its swollen military profits.

Finally, under the inherent anarchy in production under capitalism, which by its nature precludes planned economic development, the social wealth is not fully utilised.

In capitalist countries, including Britain, despite inflation and Hawtrey's description of an "overburdened" industry with "overemployment", a portion of the productive capacity in several industries was not fully utilised even in relative prosperous years because of the difficulties in marketing their goods. Undercapacity production has particularly increased in Britain since 1956. Thus, for example, according to the British press the textile industry was working at only 70 per cent of capacity at the close of 1956 and early part of 1957. In the third quarter of 1956, the spinning and weaving industries were operating at 62 per cent of capacity, and twisting as low as 58 per cent.¹ According to a report from Munich by Reuters on January 28, 1957, the West-German Institute of Indus-

¹ *The Financial Times*, January 29, 1957, p. 7.

trial Research estimated that the British automobile industry was working at only about 50 per cent of capacity. And, at the beginning of 1958, 10 per cent of the industrial capacity of the steel industry was not being used.¹ According to the British economist T. Barna, the British manufacturing industry was operating at 17 per cent below capacity in the summer of 1958 and industrial contracts as a whole were less than at any other period since the war.² Thus, existing side by side with "underproduction", an excess of demand over supply in certain industries, which is characteristic of periods of prosperity, there occurs an "overproduction" or shortages in purchasing power, and this increases as time goes on.

Imperialist monopolies, in their hunt for high monopoly superprofits, export increasing amounts of capital abroad, despite shortages within the country on numerous occasions. During periods of acute currency crisis, the "flight of capital" abroad assumes broad dimensions. According to the U.N. Economics Department, private capital exported from Britain during 1946-52 averaged £180 million (\$570 million) annually.³ The British bourgeois economist Conan estimates the total amount of British capital invested abroad in 1949-50 at a minimum of between £4.0 and £4.2 thousand million.⁴ Taking into account the increase in market value of securities, we feel that this amounted roughly to £5.0 to £5.5 (\$14 to 15) thousand million in 1954-55.

Finally, the bourgeoisie "immobilise" considerable amounts of capital by hoarding, i.e., storing gold, luxury items, etc. According to *The Banker*, during 1950-55 an average of 62 per cent of all the newly mined gold in the

¹ *The Economist*, January 4, 1958, pp. 51-52.

² *The Financial Times*, July 4, 1958.

³ *International Movement of Private Capital*, 1946-52, U.N. Economics Department, New York, 1954, pp. 17-18.

⁴ A. R. Conan, *The Sterling Area*, Russ. ed., Moscow, 1954, pp. 136-41, 192-200.

capitalist world went into private hoards.¹ According to the most general estimate provided by Pick's *Currency Year-book*, the total amount of gold in private hoards in the capitalist world at the close of October 1956 amounted to \$11,900 million. Of this, \$1,700 million was located in the capitalist countries of Europe, excluding France.² A portion of this gold, to be sure, fell to the share of Britain.

Thus, every capitalist country possesses a certain potential "reserve" of material and financial resources. If this reserve were drawn into economic activity, even at the same level of production, it would lead to a sharp increase in the quantity of goods confronting the total amount of money (notes and bank deposits) on the national market. However, this "reserve" can come to the fore only in the process of the socialist transformation of society.

Hence, Hawtrey's "logical" speculation aimed at demonstrating that the only possible way of checking inflation and overcoming the balance of payments crisis in Britain is through lowering the standard of living of the working people proves to be without scientific basis.

The views presented by Hawtrey were based on the specific conditions prevailing in Britain during the 1953-55 period of prosperity. The industrial boom during these years was in large measure promoted by such factors as the arms drive, militarisation of the economy, as well as the renewal of fixed capital on a large scale. At the same time, the prosperity phase was bound up with inflation, the main cause of which was the tremendous growth of government military spending. All this taken together led to a condition of so-called excess (or apparently excess) total purchasing power, which was reflected in a general price increase, despite the simultaneous serious lag in workers' standard of living. Moreover, certain industries were affected by overproduction, and the precon-

¹ *The Banker*, March 1956, p. 141.

² Pick's *Currency Year-book*, 1957, p. 361.

ditions for general overproduction, temporarily latent, gradually gathered force.

Under such conditions, the further growth of inflation represented a definite threat to the ruling classes of Britain since it exercised a deleterious effect on the process of reproduction and considerably weakened the country's monetary position. As a reaction to this threat, there arose theories such as Hawtrey's, with their practical recommendations. Thus, the Conservative government was armed with such theories in its efforts to put certain measures into effect.

To a certain extent the rulers of Britain have succeeded in somewhat checking the further development of the inflationary process during recent years. However, in place of the temporary and fluctuating excess demand in the domestic market, we find the increasing shortages of purchasing power characteristic of capitalism, overproduction emerging from latent into overt form, and an economic horizon darkened more and more with the clouds of economic stagnation. Thus, the "prescription" written out by Hawtrey and his compatriots may have relieved one disease somewhat, but it has simultaneously aggravated another and more serious one.

* * *

An example of the second of the above-mentioned monetary and financial schools in Britain is provided by Alan C. L. Day's *The Future of Sterling*.¹

In contradistinction to Hawtrey, Day does not take the internal situation in Britain as his point of departure, but rather the country's economic position in the capitalist world and its markets.

In analysing the post-war period at the time (1954), Day, like Hawtrey, points to the fact that at the given exchange rate and relationship of export and import

¹ A. C. L. Day, *The Future of Sterling*, Oxford, 1954.

prices, Britain increasingly imported or wished to import considerably more goods and services than permitted by her limited receipts in the form of returns from exports, profits on overseas investments, freight charges, etc. A particularly large gap for Britain (and many other capitalist countries) resulted from the excess of payments over receipts with respect to the dollar area, in particular the United States. The problem of covering these unpaid imports from corresponding receipts from the dollar area constituted the problem of the dollar deficit.

"A chronic dollar shortage," writes Day, "exists when, at any given set of price levels, exchange rates, and levels of real income,¹ there is a persistent tendency for the demand for dollars by the non-dollar world as a whole to exceed the supply of dollars....

"The problem arises because non-dollar countries are attempting to enjoy a level of income higher than would be currently possible if they did not have a dollar problem."²

Day considers that the dollar shortage is easily solved theoretically. To do so currency restrictions should be lifted and the exchange rate of the pound sterling should be permitted to be freely established with respect to the dollar on the money market, i.e., spontaneously to find its actual market value in terms of dollars. Thus, even in the worst times, the demand for dollars would be equilibrated by their supply; the balance of payments with the dollar area, in the final analysis, would be automatically balanced and the dollar problem would cease to exist.

¹ "Real income" or simply "income", according to the author, implies the total amount of commodities, material values in natural form, which a country acquires as a result of domestic production and foreign trade. Accordingly, the higher the exchange rate, the more advantageous the ratio of export to import prices ("terms of trade"), the greater the country's "real income", other conditions being equal.

² A. C. L. Day, *op. cit.*, p. 47.

However, Day feels, again from the standpoint of the post-war period, that a policy such as this, which aims to establish equilibrium in the balance of payments with countries of the dollar area through the spontaneous regulating mechanism of import and export prices, would be an excessive price for Britain and the other non-dollar capitalist countries to pay. His reasons for this belief are based on the "great economic strength of the United States, and the relative weakness of the United Kingdom".¹

Day recognises the sharp change which has taken place in the relationship of forces between Britain and the United States, in favour of the latter, during the past 3-4 decades. Britain's economic difficulties have not been simply the outcome of the Second World War, but rather the result of profound influences acting over a long period of time. The war and its ruinous consequences, as it were, uncovered, made manifest, and brought into sharp relief, the hitherto concealed chronic weaknesses in Britain's economy. Among the factors contributing to the undermining of the country's position in the world capitalist economy, Day includes the following: constant worsening of the "terms of trade" for the industrially advanced countries; sharpened competition for industrial goods in the world market; increased industrial development of countries producing raw materials and food-stuffs.

Since the United States exercises a preponderant influence in the world capitalist economy, and therefore the economic situation in all capitalist countries is more or less dependent upon the particular phase of its business cycle, Day is convinced that a sharp and prolonged recession in the U.S.A.—not to speak of a real economic crisis—would have a baneful effect on the economies of capitalist countries, and particularly Britain. A sharp curtailment of U.S. imports of industrial goods, and more especially raw materials and food products, from the ster-

¹ A. C. L. Day, *op. cit.*, p. 7.

ling area induced by a crisis, and a fall in prices on the American market, would bring catastrophe to Britain's trade and payments balance. Moreover, it would sharply increase the dollar deficit in Britain, as well as the sterling area as a whole, and aggravate the currency crisis. As a consequence, Britain would suffer great material losses.¹

Every important deterioration of the balance of payments, according to Day, and even more so—a sharp crisis bound up with crisis manifestations in the United States and the world economy, would confront each capitalist country with this choice:

- a) to cover its growing adverse balance of payments by means of gold and other convertible currency reserves, which would mean the risk of draining these reserves;
- b) to resort to private or government dollar credit;
- c) to accept "non-commercial financing" (grants, "aid") from the United States for a definite amount of its imports from the dollar area;
- d) to effect stabilisation by means of governmental fiscal and credit policy with respect to the domestic price level, a "deflation" policy;
- e) to reduce the rate of exchange, i.e., devaluation, or a series of devaluation steps;
- f) directly to restrict imports, here dollar imports, by means of currency control and quota import restrictions, i.e., to apply discriminatory currency measures with respect to trade and payments directed against the countries of the dollar area, especially the United States.

¹ In view of the fact that the dollar problem has been extremely acute in Britain during the post-war years, Day deals in his book with a future currency crisis as having the features of a dollar hunger. In subsequent works, however, he considers as more probable the possibility of a deterioration of Britain's general balance of payments vis-à-vis the entire world, without wholly excluding the possibility of a new manifestation of the dollar deficit. Nevertheless, this does not change Day's attitude toward his suggested methods for combating the currency crisis.

What would be the effect of each of these steps?

Under conditions of excessive demand for foreign currency, the covering of an adverse balance of payments deficit by means of gold and other currency reserves could not be maintained over a long period of time since such reserves would soon be exhausted. The acceptance of foreign private credit would similarly provide but frail support of short duration.

As far as U.S. government loans, subsidies, and "aid" are concerned, in the first place, Day acknowledges that such "grants" and loans involve a significant encroachment on the national sovereignty and independence of the recipient country. Secondly, the United States does not look forward to providing other countries with credit and financial "aid" forever. Consequently, the "non-commercial financing" of an unfavourable balance of payments at the expense of the U.S. budget can also serve only as a temporary means of filling the breach.

Categoric opposition is expressed by Day to the reduction of export prices aimed at buttressing Britain's foreign trade position through artificial domestic price stabilisation with the help of monetary and fiscal measures, i.e., the state policy of "rigorous" deflation. The result of such a policy, according to him, would be only a sharp curtailment of production, the growth of unemployment, in other words, the extension of the economic crisis to Britain, as well as a deterioration in the "terms of trade". A fall in the rate of exchange, and the removal of government supports, he feels, would also—other conditions being equal—sharply worsen the ratio of export to import prices. Hence, it would bring about a reduction of real income and, moreover, would intensify inflation within the country, accentuating the rise in prices.

In contradistinction to Hawtrey, Day does not consider possible (following an adverse shift in the relationship of export to import prices) a substantial drop in the actual volume of consumer goods and means of production

which Britain receives and expends as a result of domestic production and foreign trade, i.e., reduced consumption and investment. He feels it would be preferable for Britain to reconcile herself to a dollar shortage rather than to permit an extraordinary reduction of real income.

This is not to say that Day is in principle opposed to any reduction in the exchange rate of the pound sterling. He is aware of the fact that in a period of world economic crisis an excessively high exchange rate could seriously undermine the competitiveness of British goods on the world market, inflict serious damage to the export trade and thereby catastrophically reduce foreign currency returns. This could lead to the necessity for restricting imports and limiting the availability of foreign currency to such an extent that Britain would be caused much greater material damage than would be suffered through a fall in the exchange rate and a deterioration in the "terms of trade".

In such a situation, according to Day, it would become necessary to lower somewhat the exchange rate of the pound sterling as a weapon in the struggle for markets and a kind of "safety valve" for overcoming the currency crisis, as well as preventing the economic crisis from affecting Britain. However, even under such conditions, the government should control the money market and nonetheless support the rate of exchange at higher level than that to which it would fall without such intervention.

Hence, concludes Day, a vital necessity exists for currency control and restrictions, as well as for direct quota restrictions on imports. But these restrictions must be carried out in such a way as to regulate and restrict chiefly payments to the country with which the balance of payments has considerably worsened (here, a country in the dollar area), rather than all foreign transactions in general. Thus, this manner of solving monetary problems presupposes discrimination in the field of foreign trade and other forms of international economic relations which

give rise to foreign obligations and payments between one country and another. Attaching prime importance to this method of combating the currency crisis, Day writes:

...As far as some of the excess demand for dollar goods at existing prices, exchange rates, and income levels is choked off by discriminatory exchange controls, import restrictions, and other similar physical controls, there is no reason why the non-dollar countries should not continue indefinitely to enjoy a higher level of current income than they would receive if they had no dollar problem. The controls permit the non-dollar countries to balance their foreign accounts without having to endure either an adverse movement in their terms of trade (through devaluation or falls in some prices) or increased internal unemployment."¹

Since the monetary situation in Britain improved during 1952-54, Day would permit the relaxation of import and currency restrictions, the establishment of partial convertibility of the pound sterling, conditional upon the further continuation of the trend of improvement. However, he advises no haste in this matter, but rather the exercise of extreme care and caution. But most important of all, he insists on Britain's not renouncing in principle such methods of economic protection, which presuppose the initiation of trade discriminatory measures in the event of necessity.

Britain's task, according to Day, is to find those means of covering her adverse balance of payments with the dollar area that will enable her, even at the high rate of exchange of the pound sterling, to satisfy—wholly or at least to a greater extent than under conditions of an equilibrated balance of payments—her requirements for imported goods and services from the dollar area.

This task can be accomplished, he feels, by uniting into one world payments system all of the capitalist countries

¹ A. C. L. Day, *op. cit.*, pp. 48-49.

which are not in the dollar area and which are disunited at present by reason of membership in different currency blocs, but which are confronted with one and the same problems. Within the framework of such a system, they could radically solve the problem of the dollar deficit.

"A proposal is therefore made," Day writes, "for a world payments system, embodying an extension of the Keynes Clearing Union idea and of the European Payments Union, but in which the dollar area would be less fully integrated than in the Keynes Plan or the Atlantic Payments Union scheme, although more than in the present European Payments Union. In addition to the present E.P.U. arrangements, by which balances arising out of inter-European trade are cleared through E.P.U. each month and settled partly in gold and partly in debts and credits to the organisation, it is suggested that payments between member countries and the dollar bloc should be settled through E.P.U.¹ When payments of the Union as a whole with the dollar bloc are in balance, individual members could settle their balances arising from American trade in just the same way as they settle their balances arising from European trade; that is, partly in gold and partly in credit, the proportions depending on the cumulative position of their accounts with E.P.U. In those circumstances individual members would have no incentive to discriminate against payments to America. When, however, payments of Union members as a whole to America show a deficit, then members would clear the American part of their accounts with the Union wholly or more predominantly in gold, and so would have an incentive to discriminate against America."²

¹ The dissolution of the E.P.U. at the close of 1958 has not altered Day's views as regards his plan for the establishment of a "world payments union".

² A. C. L. Day, *op. cit.*, pp. 10-11.

According to the "world payments system", which Day has sought to elaborate, all the balances of the member countries with the dollar bloc must be cleared through the mechanism of this system. To see to it that this takes place, a special control system is proposed.

The purpose of this centralisation of the balances of member states with the dollar bloc is, according to Day, an attempt to combine two things: on the one hand, the demand of U.S. ruling circles that the balances between the dollar and non-dollar world be settled only in gold or dollars; and, on the other hand, the fact that capitalist countries, not members of the dollar bloc, which advance credit to one another, nonetheless, would repay their obligations to the United States and other countries of the dollar area only partially in gold, and in part by having the right to draw, within certain limits, on the world payments system. The latter would thereby play the role of a kind of central international bank, enjoying the right to "create" new international credit.

In analysing the views and schemes proposed by Day, it should be pointed out that his evaluation of economic conditions in post-war Britain, and the country's relative weight in the capitalist world, is more realistic than Hawtrey's.

Day indirectly acknowledges that the dollar deficit in the post-war capitalist world is a phenomenon of objective significance. From his viewpoint, it is the policy of Britain and other non-dollar countries not to permit a reduction in the exchange rate of their currencies that could bring their balance of payments into equilibrium. But such a policy is inevitable and imposed by the nature of existing conditions.

As opposed to Hawtrey, Day sees the basic reason for an unstable payments balance and monetary confusion not in that Britain is "too extravagant" or "living beyond her means", but rather in her weakened position vis-à-vis other capitalist countries, in particular the United States,

and in the generally sharper competitive struggle for markets. Day does not feel that the problem will be solved by simply switching a portion of Britain's industrial production capacity to foreign markets at the expense of reduced domestic demand, but rather by increasing the country's competitiveness, i.e., the "penetrating power" of British goods, both for protection at home and abroad. Unless Britain wins new foreign markets, according to Day, she will not be able to surmount the monetary crisis.

In view of the definite technological and economic superiority of American industry, and in certain respects of several other capitalist countries, over British industry, Day, like many other economists of this school, favours certain methods of competitive struggle linked with state policy in the sphere of international economic relations. He attaches particular significance to the use of import and currency restrictions, as well as the reduction, under certain conditions, of the exchange rate as an instrument of economic struggle directed primarily against U.S. monopolies, a means of protecting the balance of payments, currency reserves, and of overcoming or anticipating a monetary crisis.

Day, like Hawtrey, does not scientifically explain the profound processes taking place in the world capitalist system at the present time. But it is precisely these processes that brought about the substantial weakening of the old imperialist powers, including Britain, on the one hand, and the strengthening of the United States, on the other. The change in the relationship of forces between these countries was reflected in the post-war disruption of payments relations between the United States and the rest of the capitalist world, including Britain, and the appearance of the problem of the dollar deficit.

Day glosses over the processes of parasitism and decay—the retardation of technological progress, the tendency toward stagnation in technical development and

improvement in certain branches of the economy, and the rising proportion of the population not engaged in the process of material production. He also overlooks the diversion of huge financial and material resources, as well as manpower, from productive employment, the export of monopoly capital, etc., which occurred in England earlier than in other capitalist countries.

Since the turn of the century and particularly during the period of the general crisis of capitalism, the United States has demonstrated unquestionable superiority over Britain with respect to total industrial production and economic resources, technological and economic potential, level of productivity and intensification of labour. According to the British economist T. Barna, the amount of fixed capital per worker in U.S. manufacturing industries in 1956—despite certain changes in favour of Britain in the post-war period—was 2.4 times as high as in Britain. Moreover, labour productivity in manufacturing in the United States, which had been 2.24 times as high as that in Britain in 1937 and 1948, reached 2.59 times the British level by 1956. In other words, British labour productivity in manufacturing industries dropped 16 per cent as compared with the U.S. level during 1948-56.¹ As a result, Britain was compelled to expand considerably its volume of imports, but proved unable to allocate sufficient commodity resources for export. Furthermore, her exporters were unable to withstand the competition of American and other monopolists in many markets.

Capital exports from the United States during 1946-52, according to U.N. statistics, amounted to \$1,300 million annually.² In other words, U.S. monopolies exported annually more than two times as much capital as Britain during this period. This radically altered the relationship be-

¹ *The Banker*, April 1957, p. 229.

² *International Movement of Private Capital*, Russ. ed., 1946-52, pp. 17-18.

tween the absolute amounts of foreign capital invested abroad by Britain and the United States. On the eve of the Second World War, U.S. long-term investments were approximately one half of their British counterparts. But, at the close of 1955, U. S. investments amounted to \$44,900 million, including private investments totalling \$29,100 million.¹ Thus, U.S. foreign investments as a whole were more than three times as much as British investments abroad, with private investments approximately double.²

The post-war period has been marked by the penetration of foreign capital, chiefly from the United States, into Britain. As a result, British net receipts from foreign investments for the twelve years 1946-57 averaged 45 per cent less than the corresponding revenue obtained in the pre-war year of 1938.³

Day's analysis disregards such important factors as the deepening of the general crisis of capitalism following the Second World War, the breaking out of socialism from the framework of a single country and its transformation into a world system, as well as the disintegration of the colonial system. However, these factors play no small part in sharpening the contradictions and disproportion in the world capitalist economy, in increasing marketing difficulties for the capitalist states, and in intensifying the rivalry between these countries in the world market.

Also disregarded in Day's analysis are the methods employed by U.S. imperialism, e.g., state monopoly measures to expand the volume of commodity and capital exports, dumping of goods abroad, tariff and other restrictions to keep foreign goods out of the U.S. internal market. Similarly, the arms race and militarisation of the economies of the major capitalist countries, the sharp rise in military

¹ *Statistical Abstract of the United States*, 1955, p. 868.

² See p. 139 of this volume for data on Britain.

³ *Annual Abstract of Statistics*, No. 86, 1938-48, 1949, p. 275; No. 94, 1957, p. 235; *United Kingdom Balance of Payments 1955 to 1957*, April 1958, p. 5.

spending abroad, the search for monopoly superprofits by British and other West-European monopolists through the export of capital to the colonies and underdeveloped countries, discriminatory trade measures directed against the Soviet Union and other socialist countries—all these are absent from Day's analysis.

However, these factors greatly add to the economic difficulties experienced by the capitalist countries, deepen the contradictions and conflicts within the world capitalist system, and particularly complicate accounts between the dollar area and the rest of the capitalist world. Let us take, for example, government, and particularly military, spending. In 1938, Britain's government expenditures abroad totalled only £16 million, but in 1946 amounted to £487 million (£374 million of which, or 77 per cent, was for military spending)—an increase of more than 30 times! In 1957, statistics indicated that government expenditures amounted to £248 million (£162 million of which, or 65 per cent, for military purposes). In other words, it had reached 15.5 times the 1938 pre-war level.¹ It is abundantly clear that the huge volume of government spending abroad places a heavy burden on Britain's balance of payments.

Day has an "empirical" approach to the solution of the monetary and financial problems of Britain. But if his evaluation of the country's economic situation contains a certain amount of realism, his positive programme, to our mind, is utopian. It might be added that he, too, seems to realise this. The basic idea of his plan is, on the one hand, to secure for Britain and the other members of the non-dollar area a higher level of real income through support for a higher exchange rate and expansion of the volume of imports beyond the limits of current dollar receipts

¹ *Annual Abstract of Statistics*, No. 86, 1949, p. 275; No. 94, 1957, p. 235; *United Kingdom Balance of Payments 1955 to 1957*, pp. 5, 16.

and, on the other hand, to make it possible to settle accounts with the dollar area without the danger of draining gold and dollar reserves.

In this attempt, however, he is forced to acknowledge the following:

"Inevitably, these purposes are to some extent contradictory. Limitless international liquidity can be provided between willing member countries if they will maintain sufficiently firm discrimination against America at the other extreme, the cost of avoiding all discrimination and depreciation is a serious reduction in the power to create liquidity."¹

Day points to the then existing European Payments Union as a basis for his "world payments system". However, the member states of the E.P.U. were in the main European capitalist countries more or less of the same type. But even between them were to be found acute contradictions which finally led to the collapse and liquidation of this regional payments organisation. And here he is proposing to unite the most diverse states under the roof of a single intergovernmental monetary-clearing system. A particularly deep gulf separates the imperialist and industrially advanced capitalist countries of Europe, on the one hand, from the colonial, dependent, and economically underdeveloped (even though politically independent) countries, on the other. Relations between these sets of countries are rent by sharp antagonistic contradictions. It is fully understandable that a payments and clearing system, which, by its very nature, requires the closest daily co-operation among its members, could not last long, even were it to be established, which, in itself, is highly problematical.

Day declares that if import and currency restrictions were removed by any country, the disruption of the equi-

¹ A. C. L. Day, *op. cit.*, p. 221.

librium in the balance of payments would possibly disappear "to be replaced, perhaps, by serious poverty and unemployment in some countries".¹

It may be granted that Day is personally concerned about Britain's "general national interests", including the interests of the working people, in his proposed measures to promote the country's economic development under the new conditions of competitive struggle in world capitalist markets, to accumulate capital, to achieve technological progress, and to obtain full employment.

However, in fact, under conditions of state monopoly capitalism, the manipulation of the exchange rate, import and currency restrictions, together with imperial preference, are utilised by British big business interests to protect themselves against the competition of American and other monopolies in Britain's home market. Moreover, these serve as weapons in the struggle for world markets, in particular the markets of the sterling area countries—a struggle which, in the final analysis, is geared to the extraction of high monopoly profits, the greatest possible share of the total fund of surplus-value derived by the capitalists from the exploitation of the international working class.

As regards Day's "world payments system", assuming it can be established, in practice it would be reduced to an instrument to strengthen the monetary position of British imperialism, to provide financial reserves for the increased export of capital, to carry out imperialist policies, and to secure such conditions for the settlement of international accounts as would favour the exploitation of the peoples of other countries, especially the colonial and underdeveloped countries, by British monopolies. Such imperialist goals, to be sure, are alien to the genuine interests of the British working people.

¹ A. C. L. Day, *op. cit.*, p. 50.

The measures proposed by Day, as can be seen, would promote the interests not of the entire British bourgeoisie, but rather those of the industrialists, for whom questions of export and markets are of vital concern.

In opposing the subordination of British monetary policy to the interests of increased employment of the pound sterling in the sphere of international payments and accounts, Day warns against the danger of overestimating the role of "specific interests of the City of London", i.e., banking capital, in the determination of the country's general economic policy. "Britain's wealth," he writes, "depends primarily on the competitive strength of her manufacturing industry, and only secondarily on the profits of international banking and merchanting."¹

Proposals advanced by Day and other like-minded economists could not hope for a welcome reception on the part of the colonial peoples and countries which have gained political independence, but are still saddled with an economically backward economy. One such proposal is to utilise the currency earned by these countries from exports to the United States to finance the foreign trade of the industrialised countries with the dollar area, in order to cover more or less their dollar deficit. This is much like the pattern of relations that exists between Britain and the other countries of the sterling area. Similar monetary and financial plans to exploit the Afro-Asian peoples are based on the assumption that the economic backwardness of these countries will be perpetuated, their role as primary producers for the imperialist powers will be protracted, and that they will become sources of dollar exchange for the latter. Obviously, these aims contradict the interests of the underdeveloped countries, which are faced with the task of utilising their world economic ties to accelerate their economic development and to improve the material welfare of the broad masses of their people.

¹ A. C. L. Day, *op. cit.*, p. 154.

Finally, Day's proposals reflect, to a certain extent, Anglo-American contradictions with respect to currency questions.

Monetary policies pursued by U.S. monopolies aim to increase reliance on the dollar in international transactions, to "tie" all other currencies in capitalist countries to the U.S. dollar through free convertibility, in a word, to establish the supremacy of the dollar in the capitalist world, and control by U.S. ruling circles over the monetary policies of other capitalist countries. Hence, one need not possess prophetic vision to realise that Day's plan to create a world payments organisation under British influence, which would at its own discretion regulate exchange rates and introduce import and currency restrictions against the United States, and within which dollar circulation would not be permitted, would meet with resistance from U.S. imperialism.

Thus, he writes that "it has to be accepted that complete co-operation with America and full acceptance of American dominance will not always be possible, and that when self-defence is necessary the break should be made as smoothly as possible".¹

The clearly anti-American slant of Day's proposals is quite symptomatic. It demonstrates that British economists are becoming increasingly aware that U.S. foreign economic policy exerts a disruptive influence on the world capitalist market, disturbs international economic relations, undermines the monetary and financial positions of other capitalist countries, and inflicts considerable material damage upon them.

* * *

Several Left-wing Labourite economists and public figures oppose even more decisively U.S. governmental pol-

¹ A. C. L. Day, *op. cit.*, p. 13.

icy in the field of international economic relations. They advocate stubborn resistance and an end to dependence on the United States. Among these is the noted British economist and one of the ideological leaders of the Labour Party, the late Professor Cole, whose views on these problems are set forth in his major work *Money, Trade and Investment*.

Cole's views on international economic relations coincide with those of Day in a number of instances. Like the latter, Cole also proceeds from the existence of great unevenness in the economic development of the world capitalist system, particularly in the post-war years. This is described by him as a "disruption of international economic equilibrium" and an enhancement of U.S. technological and economic might, to which he counterposes the weakening of Britain and other West-European capitalist countries. He writes, for instance:

"Even if the Soviet Union, Soviet China, and the other countries within their orbit are left out of account, there are in the Western world powerful forces making for unbalance which no amount of monetary manipulation and no regulation of trade conditions can remove."¹

To Cole's credit, it must be noted that among the root causes of "unbalance" in the world capitalist system, he attaches prime importance to the "burden of heavy expenditure on wars and armaments", superimposed on economies already grappling with a whole complex of grave difficulties. As far as the American side is concerned, "the outstanding problem is that the industries of the United States, with a productivity far ahead of the European, have the capacity to export much more than the equivalent of the imports Americans are normally prepared to buy...."²

More profound, despite the repetition of many reform-

¹ G. D. H. Cole, *Money, Trade and Investment*, 1954, p. 407.

² *Ibid.*

ist errors, is Cole's evaluation of the state of international economic relations and world capitalism, which permits him to approach monetary problems more realistically.

All that the non-dollar area capitalist countries can do under present conditions, according to Cole, is to seek ways to diminish somewhat the potential threat of an impending U.S. crisis and "to try to lessen the impact of American fluctuations on their economies".

In this connection, Cole is quite opposed to the principles of "equal opportunities or conditions for all countries", "free trade", "multilateral trade", etc., which the rulers of America so persistently propagandise. He also argues vigorously with American bourgeois economists who support the so-called theory of "relative effectiveness of production or relative costs of production".¹ He claims that this theory, in essence, expresses the "desire of American exporters to secure unlimited access to all markets of the world".² In other words, it serves the expansionist policy of U.S. monopolies.

Within the framework of this approach to international economic relations Cole is categorically opposed to the complete elimination of currency restrictions and import

¹ According to the theory of "relative costs of production", commodities should be produced only in those countries where they require the least expenditure of labour and materials, i.e., the smallest costs of production. Differences in costs of production for various commodities in individual countries are attributed by this theory to the specific natural and climatic conditions, as well as the degree of endowment of a country with the "factors of production" (labour, capital and land) and differences in the costs of these factors. Under present conditions of world capitalism, U. S. monopolies, on the basis of this theory, demand "free competition" in the world capitalist market, the abolition of preferential tariffs, trade and currency restrictions in other capitalist countries, the renunciation of the practice of bilateral trade and payments agreements, etc. In a word, they use that theory as a justification for their foreign economic expansion.

² G. D. H. Cole, *op. cit.*, pp. 300-301.

controls, the establishment of free dollar convertibility of the pound sterling, both for members of the sterling area countries and of other countries outside the dollar area. He is against the abolition of discriminatory measures against the United States, the liquidation of the dollar pool of the sterling area, and in favour of the re-establishment of the right of every country or currency area to determine and change, at its own discretion, the gold content and exchange rate of its own currency. He wants Britain to be completely self-sustaining and independent of the United States in the sphere of monetary policy. Thus, he writes:

“What Great Britain cannot afford to do, in this field [in the matter of monetary restrictions—D. S.] any more than in that of the fixing of currency values, is to give up her freedom of national policy-making, and to surrender herself to a system of world *laissez-faire*, which under existing conditions is bound to mean American domination.”¹

The positive programme advanced by Cole has much in common with Day's proposals, despite considerable differences in a number of points. Cole recommends that the monetary and financial position of Britain and other non-dollar capitalist countries be strengthened, insofar as possible, and that the struggle against U.S. foreign expansion be conducted not on the basis of the “economic nationalism” of bilateral trade, clearing and payments agreements, but rather on the basis of a cohesive economic bloc of capitalist countries (presumably headed by Britain). Thus, the United States could be confronted by a combination of sterling area countries and the member states of the European Payments Union. Such a union, according to Cole, would be completely viable since the countries encompassed would supplement one another economically to a considerable extent.

In contradistinction to Day, who envisages the member

¹ *Ibid.*, p. 306.

states of the "payments system" co-operating solely with respect to international accounts, Cole proposes to organise much closer co-operation in the spheres of trade and planning. He would buttress the monetary superstructure, represented by the dollar pool of the countries belonging to the sterling area and the E.P.U., with a solid economic foundation. For this purpose, these countries must go much further than heretofore with respect to "collective planning" and long-term agreements in the sphere of trade, as well as joint capital investment on a broad scale.

Hence, writes Cole, "it is a matter of entering into arrangements for expanded trade, on as stable foundations as possible, between primary producing and industrial countries, on terms which will allow the trade to continue even if America restricts her buying".¹

Of the many obstacles hampering the realisation of this plan, Cole considers the most difficult one to be the heavy burden of military expenditures, which does not permit the majority of West-European countries to invest on a large scale in their own economies and those of the countries of the sterling area.

In this connection, Cole sharply criticises U.S. "aid" to Britain and other West-European capitalist countries. Such aid, he feels, has led these countries to surrender a considerable degree of independence. They have, perforce, "accepted inclusion in the American sphere of influence and thus lined up against the Soviet Union and its... allies".² U.S. military "aid" is made conditional upon huge arms expenditures by the recipient states from their own resources. Hence, Cole concludes, to call a halt to the pernicious arms race and to reduce the vast military outlays, it is necessary, above all, to shake off the fetters of U.S. "aid".

"The United States," he writes, "will not go on financing Europe except on terms of armament spending which

¹ *Ibid.*, p. 409.

² *Ibid.*, p. 367.

renders the aid a net handicap—above all because it prevents economic rehabilitation and development.”¹

In a general evaluation of Cole’s programme, it must be pointed out, in the first place, that it overlooks the contradictions between the capitalist states, which are sometimes antagonistic to the point of irreconcilability; not to speak of relations between the old capitalist countries and the underdeveloped Afro-Asian states, which are bending every effort today to cast off the shackles of political and economic dependence. Secondly, the realisation of his proposals (which could be only partial and ephemeral) objectively could satisfy merely the interests of the big bourgeoisie of Britain and other European countries, inasmuch as in practice it could lead only to intensified exploitation of the peoples of the colonial and underdeveloped countries.

Reformist errors and illusions constitute a heavy drag on the “positive” ideas of Cole and British Labourites, who seek to work along “organic and constructive” lines within the framework of capitalism. At the same time, we find in Cole the courage to voice some harsh truths—that U.S. foreign economic policy is imperialistic and disruptive in nature, that U.S. “aid” inseparably linked with the arms race is having a deleterious effect on the economies of Britain and the other West-European countries and he sharply condemns such policies.

* * *

Britain’s monetary and financial system is operating at present with serious interruptions. A programme to surmount the country’s economic difficulties is offered by British Communists, as well as progressive economists and public figures. This programme includes such general democratic proposals as the immediate cessation of the arms race, the restriction of fabulous monopoly profits, and the broad expansion of trade with the socialist countries.

¹ G.D.H. Cole, *op. cit.*, p. 410.

THE ESSENCE OF DIRIGISME¹ IN PRESENT-DAY BOURGEOIS POLITICAL ECONOMY IN FRANCE

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Bourgeois political economy, wrote Marx in his *Theories of Surplus-Value*, "keeps in step with the *real* development of the social contradictions and class struggle existing within capitalist production".²

Bourgeois economic thought is highly sensitive to changes in the development of the capitalist mode of production. It reacts quickly even to insignificant modifications in the forms of capitalist production. With each step in the deepening of capitalist contradictions, bourgeois economics is called upon to fulfil new "social assignments", imperiously issued by the ruling class to camouflage these contradictions.

French bourgeois economics of the last few decades, for all its heterogeneity as manifested in innumerable schools of thought, reveals two basic trends: the liberal school supporting the principle of *laissez-faire*, and the supporters of economic regulation by state monopoly capitalism.

¹ *Dirigisme*—regulated or guided capitalism.—Ed.

² Karl Marx, *Theories of Surplus-Value*, Moscow, 1936, Vol. III, p. 366.

The supporters of *dirigisme* in France first entered the arena of economic discussion during the severe economic crisis of 1929-33, which shook all capitalist countries to their very foundations and threw them far back in their economic development.

State interference in the capitalist economic system rang out like a clarion call from dozens of economists during that period. But their voices were still feeble and, with improved economic conditions, were drowned out by the confident chorus of liberal economists. They left behind them no influential legacy in French bourgeois economic literature.

Objective conditions had not yet matured for *dirigiste* tendencies to gain ascendancy in French bourgeois economics. State monopoly capitalism in France had not yet assumed such proportions as to influence appreciably the country's economic development, and the middle classes still maintained their positions in a number of industries, despite the rapidity of monopoly growth. Thus, notwithstanding the appearance of works in French literature calling for state economic regulation, the *dirigiste* school did not gain a foot-hold in French political economy during those years: no sharp differentiation of views took place, no new methodology was elaborated, nor was there even a formulation of the specific economic functions of the bourgeois state.

It should be noted, however, that the *dirigiste* tendencies arising in France during the 1929-33 world crisis grew stronger during subsequent years and gradually took shape as a distinct trend. This evolution in bourgeois economics reflects the further development of the general crisis of capitalism. Its deepening, which promotes the maturation of state monopoly forms, represents the major cause of increasing *dirigiste* views in present-day French bourgeois economic thought. The causal nexus between such views and the social tremors of capitalism

giving rise to them have been recognised by a number of scholars in contemporary bourgeois economic thought.¹

As a result of the peculiarities of the historical development of France, i.e., the stability of her petty-bourgeois social structure and the usurious nature of her imperialist bourgeoisie—factors retarding the process of concentration of capital, state monopoly capitalism developed there on a large scale later than, for example, in the United States or Britain. Thus, *dirigiste* views congealed into an independent economic trend in France only in the post-war years—in contrast to Britain, where Keynesianism had already developed in the thirties. *Dirigisme* found its expression in dozens of articles and monographs directly reflecting the crisis in bourgeois economic thought immediately after the war.

The emergence of a world socialist system and the crumbling of the colonial system of imperialism accentuated the spasmodic nature of capitalist production. In France dislocations resulting from the war, the curtailment of industrial production in 1949 and 1953, the wars waged against Viet-Nam, Korea, Egypt and Algeria and subsequent periods of inflation, the increased budget deficit, the drain on gold and foreign currency reserves, compelled monopoly capital to rely more than ever on governmental measures to extricate itself from its difficulties at the expense of the taxpayer.

As a reflection of these growing economic difficulties, French post-war economic literature was saturated with a new torrent of *dirigisme*, incomparably greater than that of the thirties. But this time *dirigiste* tendencies in French literature fell on much more fertile soil, and capitalism

¹ Thus, for example, Professor James of the Sorbonne writes: "The establishment in Russia of a clearly 'anti-capitalist' regime appreciably increased the influence of Marxist ideology, and the great depression of the thirties compelled economists to turn to the question of establishing economic equilibrium by means of state regulation". (Emile James, *Histoire de la pensée économique au XX^e siècle*, Paris 1955, p. 22).

in France took on more clearly the form of state monopoly capitalism.

As a result of the nationalisation of a number of French industries in 1945-46, a relatively broad sector of state monopoly capitalism was established.¹ In 1958, 97 per cent of the coal industry (Charbonnages de France) was in state hands, 80 per cent of the aviation industry (Société Nationale de Constructions Aéronautique and Société Nationale d'Etudes et de Construction de Moteurs d'Aviation), 80 per cent of electric power production (Électricité de France), 95 per cent of gas production (Gas de France), over 40 per cent of the automobile industry (Régie Nationale des Usines de Renault). The state finances all work connected with atomic energy research and participates through the Bureau de Recherches de Pétrole in a large number of oil refineries and suppliers, e.g., a 35 per cent interest, in Compagnie française des pétroles. Furthermore, more than 30 per cent of all nitrate fertiliser production is owned by the state.

It also owns a large share of the aviation transport company Air-France, to which *80 per cent of the country's air transportation* belongs.² The state owns 30 per cent of the shares of the Compagnie des Messageries Maritimes and has a 75 per cent holding in Compagnie Générale Transatlantique, which are the two largest French maritime transport companies. Furthermore, the municipal transportation system of Paris is almost entirely (75 per cent) in the hands of a state company Régie Autonome du Transport Parisien; the biggest share of the

¹ The data which follow were compiled from the following sources: "Rapport du comité de l'indépendance des organisations d'employés et de travailleurs," Annexe 11, Genève, March 6-10, 1956; *Le fonctionnement des entreprises nationalisées en France*, Paris, 1956, par M. Borteus, G. Bouquet; L. Chardonnet, *Economie française*, t. 11, 1959.

² In recent years, the shares of Air-France are gradually being sold to private capital.

French railroad network is owned by the state monopoly Société Nationale des Chemins de Fer Française, through which the state is tied to the metal industries. Through Charbonnages de France, the state participates in a number of enterprises producing plastics and various products of the coal, gas and coke industries. Finally, a definite share of military production is in state hands.

In 1957, according to official statistics, there were 648 state enterprises, either nationally owned or of mixed ownership. Of these, 297 were engaged in trade and industry and turned out 13 per cent (by value) of the national product. In 1956, state enterprises employed about one-sixth of labour force in trade and industry.¹

It should be noted that these statistics do not include numerous subsidiaries in which private and state capital are closely interwoven. Moreover, there are more than 180 French companies that are subsidiaries of state enterprises. Consequently, the state sector of French industry is considerably greater than indicated in the above data.²

The state also plays a very important role in the sphere of credit.

Four nationalised banks of deposit (Banque Nationale pour le Commerce et l'Industrie, Comptoir national d'escompte de Paris, Crédit Lyonnais and Société Générale) possess almost one-half of the resources of the country's banks of deposit, as well as one-half of their currency circulation. Also state-owned is the bank chiefly engaged in note issues and rediscount operations.

Various organisations concerned with the mobilisation of liquid assets are also state-type enterprises, e.g., Caisse

¹ S. Bettelheim, "Role of the Nationalised Sector in the French Economy", *World Economy and International Relations*, No. 5, 1958.

² M. Edgar Faure, Minister of Finance, in a speech to the French National Assembly on April 3, 1951 declared: "The nationalised sector . . . represents 20 per cent of French industrial capacity." (*Vingt ans de Capitalisme d'Etat*, Spid, 1951, p. 110). The same estimate is found in the periodical "La Tribune des Peuples", No. 4, 1953, p. 86.

des Dépots et Consignations, Caisse Nationale de Marches de l'Etat, Caisse centrale de la France d'Outre-Mer, and several other financial deposit institutions. The volume of deposits in these organisations is considerable, for example, Caisse des Dépots et Consignations alone has deposits amounting to two-thirds of that of the nationalised banks of deposit.

Finally, more than 30 insurance companies, in which about 60 per cent of the country's insurance funds are concentrated, are also nationalised. Moreover, all of France's credit institutions (both state and privately-owned) are under the supervision of two central state organisations: Conseil National du Crédit—responsible for general supervision—and Commission de Contrôle des Banques—responsible for technical control.

National banks play a prominent, but not predominant, role in the mobilisation and redistribution of moneyed capital. Thus, the most influential banks, such as, Banque de Paris et des Pays-Bas, Banque de l'Indochine, Crédit Industriel et Commercial, and other commercial banks have not been nationalised. However, the process of fusion of private banking capital with industry takes place in the government sector of production just as in the private sector. By taking advantage of the government's financial difficulties, private banks provide credit to nationalised enterprises and thereby establish effective control over them.

The scale of governmental industrial-financial activity in France is reflected in the volume of the government's financial operations. According to the noted French economist M. Pelenque, such operations in 1957 amounted to 9,160 thousand million francs,¹ or 45 per cent of the national product during that year.

Government holdings in the sphere of production are extremely difficult to determine with any great degree of accuracy. In 1957, it was estimated that 36 per cent of the

¹ These and subsequent data are given in terms of old francs.

national wealth was in the hands of the French Government.¹ This includes not only industrial, commercial, and financial enterprises, but also forests (4 million hectares of the country's total forest area amounting to 10 million hectares), stud farms, government-owned agricultural marketing organisations, etc.

Such important changes in the development of French capitalism have found their expression in bourgeois economic thought, which has had to throw out many of its old propositions and to work out a considerably modified ideological and theoretical doctrine to camouflage the newly developing socio-economic processes. With the increasing influence of finance capital and the growth of state monopoly capitalism, French vulgar political economy in the past two decades has been confronted with a new task—to demonstrate the advisability of the government's being drawn into the process of capitalist reproduction. French political economy, formerly almost entirely founded on the principle of free enterprise, i.e., no government interference, lost its importance for monopoly capitalism. And so French bourgeois economic thought underwent a rapid "remodelling", and came out with the trend known as *dirigisme*.

An important indicator of the growth of state capitalism is the degree of redistribution of national wealth with the help of the state. Approximately 50 per cent of the French national income passes through such channels as the national budget, Finance Ministry operations, and state financial institutions. But the lion's share is concentrated in the national budget. In 1956, for example, government budget expenditures amounted to 4,611 thousand million francs, or about 40 per cent of the national income, as opposed to 14 per cent in 1913, when the national budget represented the sole channel of redistribution of national wealth.

¹ *La vie française*, January 3, 1957.

Dirigisme is not used here in the broad sense of the word reflecting bourgeois economic ideas which stand more or less opposed to free capitalist enterprise. In that sense, *dirigisme* would be much the same as Keynesianism, and even earlier bourgeois conceptions of state interference in the capitalist economy.¹ The term *dirigisme* is understood here as representing a new trend in French bourgeois political economy that has matured on French soil during the past 25-30 years. In contradistinction to Keynesianism, which restricts the frame of reference of government regulation primarily to monetary and banking policy, the supporters of *dirigisme* would extend the role of the state to *direct participation in industrial production*. The particularly broad post-war expansion of state undertakings under the banner of "planning" provided the groundwork for *dirigisme* and it has become the specific form of state monopoly capitalism in contemporary French economic life.

Dirigisme presupposes state distribution of manpower and raw materials among the various sectors of production, enforced cartelisation of production, regulation of prices and taxation, the provision of credit facilities, control over foreign trade, etc. However, as the French economist Bernard Chenot correctly points out:

"Capitalism continues to exist, since no expropriation of private capital has taken place, and there is even something like a legal consolidation of profits. . . ."²

It should be noted that there is no absolute line of demarcation dividing present-day bourgeois political economy into hard and fast liberal and *dirigiste* trends. During periods of economic prosperity, even the most ardent supporters of a guided economy depart somewhat from

¹ See, for example, John M. Clark, *Social Control of Business*, University of Chicago Press, 1956; Emile James, *L'Etat au secours des entreprises privées défaillantes*, *Revue d'économie politique*, 1932.

² Bernard Chenot, *Organisation économique de l'Etat*, Paris, 1951, p. 20.

their positions and agree to greater freedom for private enterprise. Conversely, adherents of the liberal school, during periods of great social upheaval such as economic crisis and war, are not averse to making use of the bourgeois state as a way out of the country's difficulties at the expense of the broad masses. But just as the general tendency in the development of capitalism is for state monopoly to gain predominance (despite occasional lapses in the economic role of the bourgeois state), so *dirigisme* becomes the predominant trend in the evolution of bourgeois political economy.

* * *

In the immediate post-war years, French bourgeois political thought witnessed increased attacks against the liberal school. Perhaps the greatest impact was made by Jean Fourastié in his sensational work *Le Grand Espoir du XX^e Siècle*, which appeared in 1949.

Perceiving all the major vulgar propositions of the liberal school, Professor Fourastié comes to the conclusion that the last vestiges of classical political economy must be thrown overboard: the principle of objective mutual dependence of economic processes and the method of abstraction. He shows especial animadversion to the method of abstraction. Thus, he writes:

“The main reason for the reverses suffered by classical political economy (the author has in mind not only Adam Smith and David Ricardo, but also J. B. Say, Malthus, and other representatives of earlier vulgar economy—A.P.) lies in its overlooking or ignoring the fundamental prerequisite for scientific research: science (experimental) can deal only with facts, if not measurable, at least observable, that is, those that can be described, registered, photographed. . . . There is no science except that of the sensibly observed universe.”¹

¹ J. Fourastié, *Nouveaux courants de la pensée économique*, *Annales*, No. 1, 1949, p. 57.

The positivist approach of J. Fourastié flows from his reactionary philosophical views: "... It is impossible to perceive the totality of the sensible world ... we *do not* have time to formulate causal relationships; before we can identify them, phenomena change."¹

These philosophical views are a clear expression of relativism, which is essentially a depraved idealist conception of the relativity of human knowledge as a consequence of the imperfection of the human mind. Relativism leads to the denial of the value of scientific abstraction, and the limitation of economic research to concrete perceptible phenomena. Indeed, there are many bourgeois economists who have adopted such an approach to political economy.

Fourastié's positivist views are by no means original. His predecessors in this regard are the American Lewis Mumford, and Colin Clark of Australia. One of the earliest adherents of economic positivism in France was F. Simian, whose book *The Positivist Method in the Economic Sciences* appeared back in 1912. Holding that it is necessary for facts to speak for themselves, Simian recognised the validity of raw statistical data alone.

Such oversimplification of political economy is typical of economic positivism, which completely ignores the role of scientific abstraction. The latter alone, however, together with dialectical materialism, is capable of bringing to light the root causes of economic phenomena.

"In the analysis of economic forms, moreover," wrote Karl Marx, "neither microscopes, nor chemical reagents are of use. The force of abstraction must replace both."²

By repudiating the method of abstraction, Fourastié casts aside the basic scientific categories of political economy. Thus, for example, he writes: "A discussion of value, surplus-value...—things which cannot be seen in life, do

¹ J. Fourastié, *Le progrès technique et l'évolution économique*, Paris, 1952, pp. 19, 40.

² Karl Marx, *Capital*, Vol. I, Moscow, 1959, p. 8.

not interest me.”¹ In other words, he is not interested in precisely those essential categories of political economy the study of which enabled Marx to lay bare the nature of capitalism, to reveal its inner contradictions, and thereby to determine its historical place in the development of human society.

The net effect of Fourastié’s positivist views is, on the one hand, to deflect contemporary bourgeois economics from a consideration of the important contradictions of capitalist production, and, on the other hand, to dismiss the question of the nature of capitalist profits, thereby shielding bourgeois economists from so trying a task as the refutation of Marxist-Leninist economic theory.

Although Fourastié bases himself on idealist views, he prefers to camouflage his idealism with vulgar materialist phraseology. “Political economy,” he writes, “deals with the investigation of those quasi-determinations which are to be found in the sphere of *slowly evolving relative relationships*.”²

Behind this vulgar materialist mask, Fourastié seeks to conceal his denial of the objective laws of economic development. This makes it so much easier for him to cover up the fallaciousness of the theory of state regulation of capitalism. Indeed, one need only agree that economic processes follow only “partial laws” and possess no absolute interconnections to have found a loop-hole for the justification of effective interference by an external factor in these processes. And this factor is generally considered to be government economic policy.

Vulgar materialism is the cloth of Fourastié’s fallacious theory of technological progress as a factor capable of basically altering the method of distribution without transforming the mode of production. Why does he focus on technological progress? A scientific objective analysis of

¹ J. Fourastié, *op. cit.*, p. 6.

² *Ibid.*, p. 49.

production relations is unpalatable to bourgeois economists, for it must inevitably lead to recognition of the flaws inherent in capitalism. Matters stand differently with regard to the productive forces: technological development leads to an increase in the amount of surplus-value, and, consequently, the growth of monopoly profits. And since the eyes of French monopolists are glued to this question, Fourastié hastens to provide the necessary theoretical support: "The subject of political economy is the study of relationships between people and things."¹ He feels that political economy has been groping in the dark for a long time, and precisely because it has overlooked the investigation of productive forces and has concerned itself with abstract problems. This explains, according to him, the "lag of economics behind the natural sciences", which, to his mind, is the "cause of the entire misfortune of mankind today".

Filled with a desire "to bring people happiness", Fourastié is determined to lead political economy back to the "true path". "The subject of economic investigation," he declares, "is the study of how technological progress fundamentally alters traditional production and consumption, and how, as a consequence of this, our present-day economy evolves."²

On the assumption that technological progress is accompanied by a lowering of the cost of equipment, Fourastié draws the erroneous conclusion that the cost of capital—which bourgeois economics identifies with the instruments of production—"tends to approach zero". He then concludes: "As far as capitalism is concerned, it is totally destroyed by technological progress."³

The vulgar element in this theory lies, first and foremost, in that capital, a definite social relationship, is replaced by

¹ Fourastié, *op. cit.*, p. 30.

² J. Fourastié, *Le grand espoir du XX^e siècle*, Paris, 1949, p. 1.

³ *Ibid.*, p. 219.

a thing—the instruments of production. This leads to his false conclusions. The theoretical propositions evolved by Fourastié do no more than hyperbolise the effects of technological progress, which in itself, without social transformations, can be accompanied by no root changes in the mode of production and consumption.

In fact, during the past 20 years, labour productivity in France has risen more than 30 per cent as a result of technological progress. Why, then, has no basic change taken place in that country with respect to the nature of national income distribution? Quite the contrary, during this period the share of wages in the French national income has fallen, and the share of profits received by capitalists has risen proportionally.

Thus, this vulgar materialist thesis of a possible “regeneration” of capitalism without social transformation essentially buffers monopoly capital. The subjective idealist kernel of his theory is ensconced in a methodological approach based on the denial of objective economic laws and the internal mutual relationships of economic processes. And the end result of this theory is to clear the way for state interference in the country’s economy.

An opponent of the *laissez-faire* principle is the noted French bourgeois economist Emile James, who is a distinguished scholar in the field of history of economic thought. Commenting on the deplorable results of bourgeois social development during the past 50 years, he writes:

“If one admits that the economy of our time is less and less competitive, that *laissez-faire* ensures neither competition, nor human liberty, nor the welfare of mankind; if one admits that some disequilibriums are necessarily due to the play of certain economic or monetary mechanisms, and that these difficulties, rather than giving rise to definite self-correcting reactions, tend sometimes to grow indefinitely in a cumulative process, or can only, after certain reactions, give way to disequilibriums in an opposite direc-

tion... there remains little of the old belief in the automatic action of spontaneous and immediate return to economic equilibrium in a free regime."¹

James sees no possibility of removing these "flaws" in capitalism with the help of the theories of early vulgar economics. Like Fourastié, he criticises "classical" views as being "too abstractly constructed" and "excessively subjectivist" manifestations of the theory of marginal utility. And, he concludes: "If the free economy does not reach equilibrium spontaneously, the intervention of stabilising factors is justified."²

According to bourgeois economists, a deep gulf in principle separates *dirigisme* and liberalism, sufficient to have precipitated a crisis in contemporary French bourgeois political thought.

"A crisis exists in the economic sciences. The supporters of the classical school with its concept of the neutral role of money, the spontaneity of economic phenomena, and non-intervention by the state, are opposed by the followers of Keynes and Vicksell, who advocate opposite views."³

But not even among the most sharply "criticised" adherents of the principle of *laissez-faire*, can one find today a single one who is completely consistent and does not support in some measure the policy of state interference in the economy. Even so thorough a liberal as Jacques Rueff, who in 1934 had seen the "source of all the turpitude of the capitalist regime in state interference",⁴ in 1951, armed with the petty-bourgeois argument of defending free enterprise from monopoly,⁵ agreed to the necessity for partial state interference.

¹ Emile James, *Histoire de la pensée économique au XX^e siècle*, p. 292.

² *Ibid.*, p. 132.

³ J. Marchal, *La crise contemporaine de la science économique*, Banque, No. 55, 1951.

⁴ Jacques Rueff, *Pourquoi malgré tout je reste libéral*, Paris, 1934 (quoted by E. James, *op. cit.*, p. 229).

⁵ Jacques Rueff, *Ordre social*, Paris, 1951.

With each passing year, economic liberalism slips further and further into compromising with a position which, in order to allow the state to interfere in the sphere of production, i.e., readily agreeing to government credit and investment, the freezing of wages, etc., stands in resolute opposition to state control of prices.¹ Such a point of view has been presented in its most rounded form by the French bourgeois economist M. Allais.

Allais considers the "identification of a competitive system with a system of *laissez-faire*"² to be an unpardonable error. He advocates a combination of the principles of free competition and state intervention. This, he calls "competitive planning", i.e., planning combined with market competition, which he considers the major trend in present-day capitalism. In fact, only minor differences divide the neo-liberal M. Allais from F. Perroux,³ a prominent representative of the "dirigiste" "realistic" trend, with the latter, perhaps, taking up the cudgels in favour of state monopoly capitalism somewhat more openly than his "adversary".

* * *

During the immediate post-war years, the rise of numerous anti-liberal theories could still not be classed as *dirigisme*. They represented, instead, merely the French version of Keynesianism. This, as is known, limits the role of the state chiefly to monetary and banking policy, which is called upon to stimulate investment in the key (primarily the military) industries.

¹ "Technically, the neo-liberals seek to support the price system which will constitute the corner-stone of individualism and provide the major regulating mechanism." (L. Baudin, *L'aube d'un nouveau libéralisme*, Paris, 1953, quoted by E. James, op. cit., p. 303.)

² M. Allais, *Abondance ou misère*, Paris, 1946, p. 10.

³ Perroux sees the future of capitalism in a mixed economy, including state and capitalist sectors and conceding that government intervention is in consonance with a market economy and free enterprise. (See F. Perroux, *Capitalisme*, Paris, 1958, p. 124.)

In the early forties, French economists were markedly attracted to Keynesianism. True, even then it was clear that a theory with such Anglo-Saxon roots could scarcely hope to satisfy fully the requirements of the French bourgeoisie. However, in order to be able to discard the frayed mantle of a bankrupt "orthodoxy", French vulgar political economy found it extremely useful to array itself, even if only temporarily, in the ready-made attire of Keynesianism. It was this ideological masquerade, which French economists presented in the literature as a "crisis of growth".

The assimilation of Keynes' "general theory" proceeded not without some—although, in that period, very insignificant—"critical" remarks directed against the "Cambridge don". But the general tone was more than laudatory. French bourgeois economists spoke enthusiastically of the "Keynesian revolution", a "renaissance" in national political economy, etc.

Keynesianism made headway in France accompanied by open apologia of present-day capitalism. But, it was also lauded to the skies by the theoreticians of Right-wing Social-Democracy (e.g., Jules Moch), who grasped at it in their vain attempts to revise Marxist-Leninist teachings.

French views on Keynesianism are of interest in themselves even though they do not sparkle with the country's typical originality. Moreover, a critical analysis will bring to light the distinctive features of *dirigisme*, as a French variant of modern theories of regulated capitalism.

Only a small circle of French economists accept Keynesianism in its pure form, i.e., without "criticism". The "general theory" has been reproduced most completely by Henri Ardant and Pierre Mendès-France in their book *Economic Science and Practice*.¹ Their basic thesis is that the flaws in capitalism arise from the fact that governmental economic policy overlooks the present achievements of bourgeois economic science. Thus, they write "... had

¹ P. Mendès-France, H. Ardant, *La science économique et l'action*, Paris, 1954.

it not been for the error of the economic policy based exclusively on classical theory, Weimar Germany would not have known the six million unemployed who provided Hitler with success.”¹

What, then, are these scientific achievements which should have replaced “classical theory”, i.e., the vulgar political economy of a previous period, in order to have abolished, once and for all, the social, economic, and political instability of capitalism? These “achievements” were found by the authors in the appearance of Keynes’ “general theory”.

“The *general theory*,” they write, “was in a sense the confluence of economic, psychological, sociological, and monetary studies.... By a change in perspective that necessitated a rethinking of the totality of the economic sciences, Keynesian theory represented a veritable intellectual revolution.”²

Concentrating attention chiefly upon the economic instability of capitalism, the authors take a Keynesian position. Their reason for crises, for example, is as follows: “A man spends less than he receives in the form of income, and the reduced expenditures for consumer goods are not compensated for by expenditures for means of production.”³

Jules Moch, the well-known French theoretician of Right-wing Social-Democracy, takes the same Keynesian line. He maintains that the basis for “economic equilibrium” is the “expansion of investment”. His clear-cut adherence to Keynesianism can be seen from his injunction to study the fact that “the 1938 crisis in the United States was halted with the help of the arms drive”.⁴

MM. Ardant, Mendès-France, and Moch, following the Keynesian approach, seek the causes of economic crises in

¹ P. Mendès-France, H. Ardant, op. cit. pp. 31, 37.

² Ibid., p. 32.

³ Ibid., p. 42.

⁴ Jules Moch, *Confrontations*, Paris, 1952, p. 99..

the underconsumption of means of production. But crises actually arise when productive consumption has reached the highest level. To acknowledge that there is underconsumption of commodities means to imply that there is a crisis of overproduction. However, this by no means explains the causes of crises. To explain underconsumption by underconsumption is tautology and contains not a grain of scientific value. Nonetheless, the French Government has built up its entire post-war economic policy on the Keynesian theory, the essence of which is that by "evening out taxation", the rate of capital investment can be constantly increased.

Based on his personal experience in government, Pierre Mendès-France points out that "beyond a certain rate, the progressive tax (on profits) runs the risk of discouraging the spirit of enterprise, and consequently investment". In the name of the "spirit of enterprise", he demands the lowering of the interest rate through increased note issue,¹ i.e., further intensification of the ruinous effect of inflation on the French economy.

France's post-war investment policy provides the most objective picture of this Keynesian prescription. A typical feature of the present-day economic development of France is its increased stimulation of productive demand at the expense of state outlays, or more accurately, the mass of French taxpayers. During 1947-56, according to French statistics, of the country's total gross investment, over 32 per cent came out of government funds. This further emphasises the important role of the state in the country's economic development. And, as to be supposed according to Keynesian theory, the major share of government investment went to military production, which is predicated on the colonial policy of French imperialism. Thus, for example, during 1949-55, government investment in the metallurgical industry rose more than 200 per cent.

¹ Mendès-France, H. Ardant, *op. cit.*, pp. 10-11.

But despite the "stimulation" provided by governmental investment policy—and in a number of instances, as a result of the extremely large investments in certain industries—France's post-war economy has been very unstable. Thus, for example, during the two war periods (against the Korean and Vietnamese peoples), the tremendous investments in heavy industry gave rise to a strong demand for means of production that did not correspond with the capabilities of the internal market. Moreover, this artificially evoked demand not only failed to become stabilised, but still further disrupted French production.

Increased investment in military production was achieved at the expense of curtailed civilian production, i.e., at the price of a reduced domestic market. This led to structural disproportions, which made themselves felt immediately after the disappearance of the inflationary war prosperity. The net effect of this "stimulating" governmental investment policy was the outbreak of a partial crisis of overproduction in 1953.

It must be supposed that French economists will concede that the members of the French Government were also *au courant* with respect to the "advances" made by bourgeois economics: during the entire period preceding 1953, the curtailment of personal consumption was fully compensated for by increases in productive consumption. However, the essential nature of private appropriation of the fruits of production imposed limitations upon the internal market, which, in the final analysis, precipitated an economic crisis in France, as well as in a number of other capitalist countries.

The untenability of the Keynesian theory of compensating for personal underconsumption by forced investment to secure economic equilibrium was further confirmed by the appearance of a new world crisis in 1957, which hit France at the close of 1958 and beginning of 1959.

* * *

Keynesianism, as already indicated, made important inroads in French economic thought in the early forties, in opposition to the "orthodox" political economy based on *laissez-faire*. Since then, the adherents of the latter trend have greatly altered their attitude to the "general theory", coming out with sharp (though not in principle) criticism of a number of its basic propositions. Some of the French bourgeois economists belonging to this "realistic trend" are François Perroux, Emile James, Jean-Claude Antoine, and A. Sauvy.

Although this school is also saddled with the baggage of vulgar political economy, its theoretical and methodological approach differs from that of the Keynesians, as well as the adherents of "orthodox" classical political economy.

In opposing the "orthodox" school, the "realists" (*dirigistes*) in no way repudiate the basic tenets of vulgar political economy, but rather conceal in refurbished form the essence of the capitalist mode of production. On the other hand, they categorically reject the scientific value of the basic principle of the doctrine of *laissez-faire*—the principle of the objective interdependence of economic phenomena. It is widely appreciated that the great classical thinkers William Petty, Adam Smith, and David Ricardo based their views on this principle, thereby contributing to political economy not only the labour theory of value, but substantiation for the objective nature of capitalist production, its existence independent of subjective factors.

As apologists of state monopoly capitalism, the "realists" have exorcised from classical political economy the rational kernel that was partially inherited by some representatives of earlier vulgar political economy. On this question, they find themselves in full accord with the views of Keynes. Thus, for instance, the noted economist Emile James sees the chief contribution of Keynes in the fact that he "has repudiated the idea of *interdependence* of

economic variables and has sought to find causal relations between them".¹

This idealistic principle has become a major ideological tenet of present-day bourgeois political economy. Repudiation of the objective nature of economic laws, which characterised previous schools of vulgar political economy, has found a new form of expression. Thus, the apologists of state monopoly capitalism, interpret the principle of "causality" as permitting them to isolate an economic phenomenon (e.g., an economic crisis), to remove it from its context of objective interrelations (theoretically, to be sure), and to make it dependent upon subjective factors (e.g., the policies of a government official).

Although cognizant of the Keynesian principle of voluntarism, French economists at the same time are mistrustful of Keynes' theory as a whole. Thus, for example, the distinguished bourgeois political economist François Perroux writes as follows: "John Maynard Keynes has made a great contribution and has broken a path. His contribution consists of his criticism of the market mechanism and spontaneity. And the path which he has broken is the policy of state intervention in the economy".²

Thus, Perroux and other French "realists" recognise only some Keynesian propositions; but they consider the scheme as a whole untenable. With the post-war experience of capitalist countries in mind, Perroux writes that "up to this point there is no evidence that full employment can remain stable". The "social risk entailed by the policy of full employment" (by which is implied the dissatisfaction of the working people with the proposed Keynesian policy

¹ Emile James, *op. cit.*, p. 321.

Under "causality" James understands connections between cause and effect which are so deprived of interdependence as to act merely in one, arbitrarily selected direction, and to be unsusceptible to a reverse reaction.

² François Perroux, *La généralisation de la général théorie*, Istamboul, 1950, p. 79.

of inflation and taxation), according to Perroux, “represents a grave threat to the existing social structure”.

The demand for full employment is also rejected by James. Thus, he writes that “... full employment increases their (the workers’—A.P.) resistance, while unemployment, immigration, and all factors increasing the ‘reserve army’ of workers weaken their resistance.”¹ The anti-working class note implied by this remark is clear. Here, James unmasks himself to reveal a confirmed defender of capitalism who can pay only lip-service (just as Keynes did) to the concept of abolishing the industrial reserve army, that “dead weight” on the feet of the working class in its struggle against capital.²

French opponents of Keynesianism also reject the proposition that the demand for labour power depends solely on the scale of investment. Perroux, for example, considers it improbable that under capitalism the “lowering of wages has ceased to serve as a stimulus for economic development”.³ On this question, Perroux proves to be more objective than Keynes.

French economists do not concur in the central thesis of the “general theory” namely, the lowering of the interest rate by means of large note issues. The issuance of notes, particularly during 1950-53, brought calamitous inflation to France, undermining the competitiveness of her commodities in foreign markets, intensifying thereby the deficit in her trade and payments balance, with the consequent perennial currency difficulties. Inflation on such a scale proved unfavourable even for the bourgeoisie. It is not surprising therefore that contemporary bourgeois political economy has come out against Keynes’ “inflexible monetary policy”.

¹ Emile James, *Histoire de la pensée économique au XX^e siècle*, p. 148.

² Frederick Engels, *Socialism: Utopian and Scientific*.

³ François Perroux, op. cit., p. 21.

James sets forth this position as follows: "... inflation has taught us, to our sorrow, that it is a movement whose rhythm is hard to control and that despite the euphoria with which it is launched, it sets off a train of 'induced' inflationary phenomena and disproportions which tend to worsen spontaneously, terminating in the disappearance of money and the dangerous impoverishment of the economy."¹

Perroux, James, and other French economists also reject the Keynesian prescription of lowering the interest rate as a means of stimulating investment. Keynes' policy of a low interest rate is unacceptable if only because it presupposes the presence of a surplus of money capital. This, during a period when post-war France was being drained by military expenditures! At the present time, French capitalism, which is making broad use of government investment at the expense of the taxpayer, is attaching great importance to another aspect of state economic policy, namely, "planned" fiscal policy. Hence, the sceptical attitude of a number of French economists to the Keynesian proposal for a regulated interest rate.

"The incentive to invest," notes James, "depends much less on the interest level than on speculative operations made with the object of future gain."²

An over-all evaluation of Keynesianism from the position of the French bourgeoisie has been presented by the economist Jean-Claude Antoine as follows: "Do the propensity to save and liquidity preference, not to speak of the incentive to invest, represent those ultimate psychological realities and sufficient continuity upon which judgement and action may be based?

"A great deal of Keynes' diagnosis, and in a way the entire thinking which permeates his theoretical abstractions refer to economic conditions in the Anglo-Saxon coun-

¹ Emile James, *op. cit.*, p. 472.

² *Ibid.*, p. 353.

tries. Their impact in France can sometimes be vitiated, particularly under present conditions.”¹ To be sure, this bourgeois critique represents only a partial repudiation of the Keynesian legacy—merely its revision. However, even though such criticism does not touch upon the class basis of Keynesianism, it unquestionably reveals its bankruptcy.

Recognition of the fallacies of the “general theory” by its erstwhile adherents speaks for itself. Furthermore, the criticism once levelled by the progressive British economist John Eaton against the “orthodox political economists” of the pre-Keynesian period is fully applicable to their present counterparts in France: “The arrogant lies with which capitalism in its heyday had been championed had been shown up by the march of events.”²

Revisions of Keynesianism show that bourgeois political economy is seeking new and more consummate forms of apologetics to suit the requirements of French capitalism. The most systematised effort in this direction is embodied in *dirigisme*. For, as pointed out by James, Keynes “did not pose the question of a systematised *dirigisme* or planned economy, nor did he elaborate a single proposal for important structural reform”.³

Of the many expressions of support for *dirigisme*, the following words of James, perhaps, most clearly differentiate it from Keynesianism: “It does not suffice to buttress capitalism on the basis of organised social labour and a low interest-rate policy. It is necessary to alter completely the present structure (of capitalism—A.P.) by, for example, a transition to a planned economy.”⁴ This, to be sure, should be achieved without infringing upon the private ownership of the means of production. Nationalisation of private production is recognised by the adherents of *diri-*

¹ Jean-Claude Antoine, *Introduction à l'analyse macro-économique*, Paris, 1953, pp. 275-76.

² John Eaton, *Marx Against Keynes*, London, 1951, p. 10.

³ Emile James, op. cit., pp. 343-44.

⁴ *Ibid.*, p. 349.

gisme only in the form of "mixed companies", where government capital is, in essence, placed at the disposal of the monopolies.

The *dirigiste* viewpoint was set forth in great detail in Perroux' work *Capitalism*, which appeared in 1958. The author envisages the capitalism of the future as a mixed economy comprising "state and capitalist sectors" and recognising "state intervention in accordance with the inner logic of a market economy and enterprise".¹

Dirigiste rejects nationalisation even if it is of a purely bourgeois nature. On the basis of, in effect, the domination of private capital, "planning" à *la dirigisme* is actually a farce. Without removing the contradictions of capitalism, "planning" becomes simply a means for effectively mobilising thousands of millions of francs in behalf of French monopolies. This, in essence, is the heart of *dirigisme*.

* * *

The central theme of apologists of state monopoly capitalism is that the bourgeois state has real concern for the "public" and the "general welfare". Thus, for instance, according to James, monopoly oppression is caused by free competition, for which his remedy is state regulation. "As a result of free competition," he writes, "the most powerful enterprises devour small business, form trusts, and establish monopolies. It is necessary for the state to intervene in the economy, to support the weak, and to prevent them from being absorbed."² Apparently, James considers that the bourgeois state, which consists of such organs as the government, police, etc., represents the interests of the "weak". Thus, these organs should include opponents of monopoly, the existence of which, as he correctly points out, represents the chief cause of the plight of present-day France. In actual fact, however, the organs of the French

¹ François Perroux, *Le Capitalisme*, P.U.F., 1958, p. 124.

² Emile James, *op. cit.*, p. 18.

state are staffed with representatives of monopoly capitalism. Moreover, when it does occur on occasion that representatives of working-class interests occupy government positions, the big bourgeoisie invariably oust them, as was the case in 1947 when Communists were thrown out of the French Government.

A government composed of representatives of Big Business cannot but be obsequious to monopoly capital. And if James, Fourastié, et al., would dispute the pro-monopoly orientation of the state, the post-war development of France speaks overwhelmingly against them.

The state apparatus of France has resorted to the most diverse methods of pumping out public funds to the monopolies. To enumerate but a few of the most effective ones, we might mention: government credit at advantageous terms, military contracts, "preferential" and "parafiscal" taxes, wage regulation, and price policy.

Redistribution of the national income in favour of Big Business is usually effected through government investment. Of the total of 17,406 thousand million francs invested in France during 1947-56, state investments amounted to 6,600,500 million francs, with the greater part going to the big monopolies.¹ A considerable portion of the total went to the nationalised industries, which permitted the monopolies to argue that they were passed over in preference to the "public" interests. As a matter of fact, however, the hundreds of thousand million francs given to national industries actually were almost completely at the disposal of the big trusts.

Highly revealing in this connection was the statement made by the well-known French Government leader Jean Monnet in his 1950 report. In accordance with the "Monnet plan", "the sums made available to the major nationalised

¹ *Statistiques et études financières*, No. 20, 1953, p. 532; *G. Passe, Economie comparée de la France et de la Grande-Bretagne*, Paris, 1957, p. 173.

industries . . . pass through their hands only in transit, and are actually redistributed in the form of contracts for jobs and machinery to private industries producing equipment".¹

Monopoly capital also gains strength as a result of numerous government privileges. An example of this economic policy is the systematic plunder of the small entrepreneur through so-called "parafiscalité". This is essentially accomplished by the imposition, either through legislation or decree, of special taxes on a number of products put out by the big monopolies. Such taxes, as distinct from indirect taxes, do not appear in the budget but are intended for the direct financing of monopolies. Taxes on metallurgical products, for example, are disposed of by "Le Comptoir des Produits Sidérurgiques"² for the "modernisation of plant and equipment". Such a tax (12,000 francs per ton), for instance, has been imposed on aluminium, the proceeds of which are disposed of by the Péchiney-Ugine monopoly.

But monopolies derive their greatest revenue from military orders, which, like other services provided by bourgeois states, are paid for by the broad mass of taxpayers. Military contracts have loomed large in French industry in the post-war period in connection with the aggressive actions of French imperialism in Korea, Viet-Nam, Egypt, and Algeria. For the five-year period 1950-54 alone, military output in France increased approximately 30 times in value. Government military spending has risen in direct proportion, e.g., from 1950 to 1954, it increased from 463 to 1,350 thousand million francs; in 1956, a new record of 1,400 thousand million francs was set; and in 1957—1,468 thousand million francs (almost 10 per cent of the national income). This compares with 767 thousand million francs (7.5 per cent of the national income) on the

¹ Quoted from *France and her Trusts*, Russ. ed., Moscow, 1955, p. 342.

² Cartels formerly under the name of Comité des Forges.

eve of the Second World War, and 350 thousand million francs (3-4 per cent of the national income) on the eve of the First World War. In 1959 and 1960, military spending amounted to 1,576 and 1,657 thousand million francs respectively.¹

The lion's share of such military spending annually finds its way into the pockets of the financial and industrial magnates. As a result of this "generally useful" activity of the French Government, monopoly profits have soared and the income of the working people has fallen with the increased tax squeeze. From 1947 through 1954, the net profits of the 600 largest companies rose from 17,072 to 126,373 million francs. Parallel to the growth of capitalist profits, taxes have risen from 618 thousand million francs in 1947 to 2,710 thousand million francs in 1953. And in the subsequent years taxes have not been reduced: in 1956, they rose by more than 400 thousand million francs; and, in 1957, by an additional 467 thousand million francs. With the exception of Britain, France can boast the highest taxes in the world.

Monopolists are also enriched through the price policy applied by the government to nationalised enterprises. Thus, for example, as soon as the country's energy resources were nationalised, the price of coal and electricity rose precipitously. At the same time, prices for utilities charged to the monopolies remained considerably lower than their costs of production. A kilowatt-hour of electrical power is sold to the metallurgical and chemical trusts at 1/5 the price charged to home consumers. On the other hand, the nationalised enterprises must buy their equipment from private companies at more than twice the price it should be.

State price policy employs diverse methods of reducing the income of the working people. At the beginning of

¹ *Journal Officiel, Loi et décrets*, December 31, 1958, Senat, No. 66, t. 2, *Les projets de budget pour 1960*.

1957, for example, certain government measures purporting to be "deflationary" and in the interests of the French people were introduced. In no case was the government to permit an increase in the price index of consumer goods above 149.1—an established price level above which a corresponding wage increase (so undesirable to the bourgeoisie!) was to follow in accordance with a 1952 law. After vain attempts to check a pronounced rise in the price index computed (for Paris) on the basis of 213 commodities (which, it might be noted, simultaneously provided the stimulus for sharp price rises on remaining consumer goods), the French Government, in the interests of the bourgeoisie, reviewed this "dangerous" index and had it replaced by a new index computed on the basis of 179 commodities.

It is difficult to imagine that this policy serves the interests of the whole nation.

James views the bourgeois state as a "public" institution committed to the protection of the small producer from the ruinous effects of monopoly. However, this is hardly the case.

In 1952, for instance, the prominent French financier Guy de Rothschild remarked: "The cult of profitability should be established in France, and mediocrity no longer tolerated. The consequences of such an attitude must be accepted even where it implies the disappearance of the unfit or the concentration of 'small' enterprises into a 'large' and more rational one."¹ In carrying out this injunction of the big bourgeoisie, the Ministry of Industry worked out a programme of capital concentration in the retail trade. And beginning with 1954, the French Government initiated a policy of systematically liquidating small business and accelerating the spontaneous process of capital concentration called "reconversion".

Three government funds were provisionally established

¹ Quoted by *Economie et politique*, No. 5-6, 1954, p. 193.

in France by the decree of September 14, 1954 and the two supplementary decrees of December 6, 1954: the "Fund for Industrial Reconversion", the "Fund for Manpower Redistribution", and the "Fund for Territorial Management". The so-called *Comité Unique*, headed by the big French financier François Bloch-Lainé, was placed in charge of the funds. The first, and most important fund, was given the task of "facilitating conversion operations, i.e., the total changes or important modifications of production", to promote the reduction of the "number of ateliers or enterprises belonging either to a single company, or to different companies and thereby make production more efficient".¹

These measures taken by the French bourgeois state resulted directly in a marked intensification of the process of capital concentration and centralisation, and a still greater strengthening of the position of the big bourgeoisie. During 1955, a large number of small businesses in France were squeezed out of existence by the big monopolies. Thus, for example, the metallurgical monopoly Compagnie Française de Métaux absorbed Mines et Fonderies de Pontgibaud; a merger took place of two large shipbuilding companies, Panhoët and Ateliers et Chantiers de la Loire (the latter had gobbled up almost half of the French shipbuilding industry); the shipbuilding companies La Rochelle, Société Delmas Vieljeux and Chantiers Navals de la Pallice were merged; in the electrical industry the influential Jeumont absorbed several small companies, including Société Monnier-Desjardin, Société Renoir, Jeumont Maroc, etc.; La Société Nouvelle de Constructions Téléphoniques et la Société Bonnier was absorbed by the trust Le Matériel Électrique S-W; in the chemical industry, La Cartoucherie Française took over Société d'Équipement Électrique Portatif; Clement-Frères was merged in the monopoly Richer-Arbillot et Compagnie.

Even James cannot conceal his lack of confidence in

¹ *Economie et politique*, No. 10, 1955, p. 31.

the ability of the state to curb the monopolies. He is not sure that the “envisaged controls will always be well oriented and that the measures employed will be effective; the oligopolies know how to protect themselves politically and economically, they are powerful; often they can turn to their advantage a public measure originally designed to combat abuses which they are committing”.¹

It is apparent that the adherents of *dirigisme* are constantly tripped up by the contradictions in their views. As seen against a background of life's realistics, *dirigisme* represents a vain attempt to cast the imperialist state in the role of a super-class organ fulfilling the functions of social and economic progress.

In sum, the economic policies pursued by the French state have a single aim: to help Big Business shore up its economic positions and emerge from its constantly growing industrial and financial difficulties at the expense of the people. And for this underlying purpose, James calls for a régime in present-day France in which “every individual would be sacrificed to the state”.²

* * *

State monopoly capitalism is justified by French bourgeois economists on the basis of its “organising role”. To further this end, dozens of economic works are published, but not a single hypothesis concerning the possibility of controlling the spontaneous nature of capitalist production has been—or can be—borne out by experience. Moreover, a number of bourgeois economists themselves are sometimes dubious about the possibility of regulating capitalist production.

“As far as crises are concerned,” writes Henri Ardant, “economics, with all its statistical material, analysis, laws and theories, has not been able to verify its hypotheses”.³

¹ Emile James, *op. cit.*, p. 406.

² *Ibid.*, p. 113.

³ Henri Ardant, *Les crises économiques*, Paris, 1948, p. 20.

The modern theory of a crisis-free capitalism has been elaborated by Perroux in the form of so-called "macro-economics".¹ What bourgeois economics understands by the term "macro-economics" is provided in the following description by James: "The methods of analysis and demonstration are no longer the same; it is no longer a question of *homo economicus*, nor of his paltry calculations of marginal utility and productivity. Entering the stage, instead, are certain economic operations taken in their totality: Saving, Investment, Consumption, and Hoarding".²

Hence, "macro-economics" represents a renunciation of the study of the essentially important categories of political economy, e.g., value, wages, profit, capital, etc. In "macro-economics" we see the clearly expressed features of vulgar political economy—in short, skating on the surface of economic phenomena. Thus, bourgeois theories are substantiated, according to Lenin, "by the senseless pursuit of facts".³

"Macro-economics" is based on the fallacious concept of establishing economic equilibrium through the cartelisation of production by the bourgeois state. This is but a rejuggling of Kautsky's meretricious "ultra-imperialism", about which Lenin wrote during the First World War that it promotes "that profoundly mistaken view which only brings grist to the mill of the apologists of imperialism, viz., that the rule of finance capital *lessens* the unevenness and contradictions inherent in world economy, whereas in reality it *increases* them".⁴

Basic to Perroux's doctrine of "macro-economics" is the proposition that cartelisation on a national, and more particularly international scale, will promote operations of

¹ See François Perroux, "Les macro-décisions", in *Economie appliquée*, April-June 1949.

² Emilie James, op. cit., p. 360.

³ V. I. Lenin, *Collected Works*, Russ. ed., Vol. 20, p. 179.

⁴ V. I. Lenin, *Selected Works*, Vol. I, Part 2, Moscow, p. 531.

“large magnitude”, as opposed to the fragmentation inherent in free-enterprise capitalism.

Like Kautsky, Perroux holds out alluring perspectives of “ultra-imperialism” based upon monopoly’s allegedly stabilising role in capitalist production. “The equilibrium of growth,” writes Perroux, “between national economies which are highly unequal in importance can be realised only by a consciously premeditated plan which *makes* international competition practicable.”¹

Perroux feels that planning must be achieved on the basis of so-called “macro-decisions”, by which he understands economic decisions made by trusts, cartels, and states. These include “plans” for national supply and reconstruction of production, state credits and fiscal programmes, investment programmes and even matters concerning trade union organisation (resumption of work after strikes, etc.). Perroux lays great hope on international cartels, supra-national banks, and other international credit organisations, which, of course, are dependent on U.S. monopoly capital. Thus, he writes: “... the dominant economy, being *in actual fact* a citadel of international (the U.S. economy is implied—A.P.) investment, cannot distribute *credit of world interest* in accordance with measures or means based on private or national credit policy.”² In other words, Perroux is advocating “international” credit organisations as a weapon of economic expansion to be employed by the monopoly capitalists of the United States and other countries.

In the final analysis, this is but another variation in the gamut of “theories” supporting international cartels. As regards “macro-decisions” as a method of “planned capitalism”, this adds nothing essentially new to preceding theories of “regulated” capitalism, the hollowness of

¹ F. Perroux, “*Esquisse d'une théorie de l'économie dominante*”, *Economie appliquée*, April-September 1948, p. 293.

² *Ibid.*, p. 293.

which was long ago demonstrated by the Leninist analysis of imperialism as a particular stage of capitalist development.

Undoubtedly, the cartelisation of capitalist production brings with it certain elements of planning. In 1917, Lenin wrote that "one should not, as previously, interpret capitalism to mean the absence of planning. This is already obsolete: if there are trusts, there is no longer an absence of planning".¹ But Lenin emphasised that such planning is characteristic of production merely within the framework of a single enterprise or *several monopolies* of capitalist industry. At the same time, monopolies do not reduce, but rather increase, the chaos inherent in *all* of capitalist production taken as a whole. "The privileged position of the most highly cartelised, so called *heavy*, industry ... causes 'a still greater lack of co-ordination' in other branches of industry."²

No matter how extensive cartelisation may have become, it cannot abolish the numerous, small and chaotically scattered capitalist enterprises, just as it cannot eliminate competition between the monopolies themselves. The struggles between the industrial giants for raw materials, markets, favourable state credits, lucrative government contracts, etc., are inconsistent with a planned economy. "Planning" on the basis of "macro-decisions", even as presented by Perroux, differs little from sharp competitive struggle. Here is how he pictures "planning": "When A adopts a plan which is incompatible with that of B, it signifies the rejection of B's plan; a 'war' thereby breaks out, which can be reduced to the proportions of an athletic contest only through the intervention of a plan put forth by C, which is dominant."³ Such planning, to our way of thinking, illustrates quite well the point made by

¹ V. I. Lenin, *Collected Works*, Russ. ed., Vol. 24, p. 210.

² V. I. Lenin, *Selected Works*, Vol. I, Part 2, Moscow, p. 457.

³ F. Perroux, "Les macro-décisions", *économie appliquée*, April-June 1949, p. 325.

Lenin that "under capitalism ... any other basis for the division of spheres of influence, of interests, of colonies, etc., than a calculation of the *strength* of the participants in the division ... is *inconceivable*".¹ Attempts to adjust the planning of production on such a basis are doomed to certain failure.

It might be noted that Perroux, who in the past was a "confirmed" advocate of free enterprise, is not inclined to idealise the actions of the "dominant companies (*firmes dominantes*)". Although convinced of their stabilising role, he makes the important reservation that they may disturb the production equilibrium of the "dominant companies" as well. Perroux admits, for example, that an unfavourable turn in the business prospects of these companies, which account for 80 per cent of production, will not only disturb the equilibrium in entire industries, but might even lead to "general economic chaos". He considers that the existence of dominant companies under such conditions "reacts negatively on economic stability". These views are shared by James. But, like Perroux, basing himself on the theory of "structural disproportions", he sees no other reason for economic crises than the miscalculations of the "dominant companies" with respect to the extent of supply and demand. Both completely ignore the anarchy of production inherent in capitalism, which stems from the contradiction between social production and private consumption. Hence, the completely superficial nature of the proposals by Perroux and James to check the activities of the "dominant companies" through state intervention.

Unscientific theories of "regulated capitalism" are also part and parcel of present-day revisionism and reformism. In France, the prominent Social-Democratic theoretician Pierre Rimbert actively advocates the pseudo-Marxist theory of utilising the state to abolish social and economic contradictions.

¹ V. I. Lenin, *op. cit.*, p. 558.

According to Rimbert, economic crises can be solved by "structural reforms" of capitalism, which must play the role of socialist transformation. Thus, he writes: "Inasmuch as crises tend to become more and more serious as a result of industrialisation . . . it becomes necessary for the state to intervene permanently and more and more deeply in the economic life of society. . . . And it is only to the extent that the state, through its intervention, has modified the structure of society that the problem of economic equilibrium can find a solution, at least on a national scale."¹

The most convincing refutation of such views, however, is provided by the train of actual events. In the post-war period, French monopolies have employed, as never before, the bourgeois state apparatus. The measures taken by the French Government have not been without effect—monopoly profits have risen from year to year. The country's post-war economy, however, "macro-regulation" to the contrary notwithstanding, has experienced serious fluctuations. Barely had France recovered from the economic dislocations of the war, than her economy sharply curtailed production in 1949. And in 1952, marked reductions took place in the output of textiles, shoes, leather, food-stuffs, glass, in the printing and publishing, as well as certain branches of the chemical industries. In 1953, French over-all production dropped 3.8 per cent.

However much "planning" is introduced within the framework of capitalist production, its actual melioration of overproduction crises is extremely insignificant, and then only at the cost of greater intensification of labour. Let us look at the results of "planning" at the close of 1958 and beginning of 1959. Despite a series of measures undertaken by the French Government to "stabilise the cycle", the general index of production fell 8 percentage

¹ Pierre Rimbert, "La Doctrine Economique de Mendès-France", *La revue socialiste*, No. 83, 1955, p. 16.

points from 160 to 152 (1952=100) during the six-month period (May-September 1958), and unemployment rose 11 per cent during the same year. As a result, the standard of living of the French working people sharply declined particularly during the first half of 1959 when the crisis-ridden economy began to "level off" through additional government investments financed by tax increases (amounting to 309 thousand million francs), reduced social security benefits, higher prices, etc.

If a certain measure of prosperity has been maintained in France during the past two-three years, it has been achieved only at the cost of a chronic budget deficit (amounting to 2,486 thousand million francs during 1954-57), heightened inflation, and the catastrophic growth of the foreign and domestic public debt. It is highly indicative that only a precarious economic structure has been erected on the basis of the type of government intervention on which present-day bourgeois economists set such great value.

* * *

In sum, government "regulation" does not abolish the contradictions of capitalism, but merely changes the form of their development. Historical realities completely disprove the *dirigiste* conception of a crisis-free capitalist society. Moreover, these same realities also convincingly demonstrate that *dirigisme* is used by the open and concealed ideologists of the bourgeoisie to justify government policies which serve the interests of Big Business in its efforts to find a way out of its growing economic difficulties at the expense of the broad masses of working people.

Measures taken by the bourgeois state, whether in the framework of Keynesianism (regulation of interest rates, inflation, etc.) or in the form of *dirigisme* (enforced cartelisation, state enterprise, etc.), are oriented exclusively to the interests of monopoly. *Dirigisme* in itself is but a particular form of apologetic for state monopoly capitalism,

which is characteristic of the present growing socialisation of the productive forces in France.

It should be noted in this connection that the "theory" of utilising the state for the purpose of "regulating" capitalist production reflects the maturation within the womb of capitalism of the objective necessity for a transition to a planned economy. And just as such a transition cannot be realised under conditions of private ownership of the means of production, so all attempts to apply the theoretical prescriptions of bourgeois economists for this purpose are doomed to failure.



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