The Great Depression:

Can It Happen Again?

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Preface

This is the second edition of *The Great Depression.* The first edition was published in May 1980, a short time after the 50th anniversary of "Black Tuesday," the day of the stock market crash in October 1929 that marked the onset of the decade-long economic crisis that has since become commonly known as the "Great Depression." That depression, which spanned the entire decade of the 1930s, was not the first period of economic crisis to which the adjective "great" has been applied. That distinction belongs to the period of severe economic panic during the 1870s, which was tagged with the label, "The Great Upheaval."

It was a period marked by bank failures, over 23,000 business bankruptcies, high unemployment, drastic pay cuts, strikes, brutal strike and union-busting tactics by the top elements of the capitalist class with the cooperation of the courts, state legislatures and state and federal troops. In fact, it was the first time in the nation's history that federal troops were used during peace time to suppress strikes.

(Incidentally, it was during this period that the forerunner of the Socialist Labor Party, the Workingmen's Party, was set on foot. At its second convention, the name was changed to Socialistic Labor Party. It was known by that name until the party was established on its present revolutionary basis in 1890 and the "ic" was dropped from its name.)

It was also a period in which the "robber barons" made great progress in their trust-building, thanks in considerable degree to the elimination of tens of thousands of their smaller competitors. As John D. Rockefeller Jr., told a Sunday school class: "The growth of a large business is merely a survival of the fittest." And he went on to explain, "The American Beauty Rose can be produced in the splendor and fragrance which bring cheer to its beholder only by sacrificing the early buds which grow up around it. This is not an evil tendency in business. It is merely the working out of a law of nature and a law of God."

Economic depressions and financial panics have not been infrequent occurrences in the history of U.S. capitalism. There were many of them between the first severe three-year depression that began in 1819 and the "boom" years of the mid-1920s. In fact, as has been observed by some writers, during the years between 1870 and 1930, U.S. capitalism wallowed in the throes of economic crisis at least as many years as it did not. And there have been more than just a few economic crises (euphemistically designated recessions") between the end of World War II and the present.

The fact of these recurring crises, not only in capitalist America, but in other capitalist nations as well, constitutes convincing evidence that there are social and economic factors inherent in the system of capitalism that engender those crises. Even as this is being written and capitalist apologists are engaged in hailing the "recovery" of the nation's economy from its latest prolonged downturn, the fact is that for millions of workers and their families there never really is recovery. Instead, the evidence mounts that, whatever the gains or profits that accrue to the capitalist class and impel it to proclaim a recovery, as far as workers are concerned their economic condition under present-day capitalism is one of steady decline and deterioration. Consider the following.

After decades of new deals, fair deals, wars on poverty, civil rights legislation, government regulations, government deregulations and a host of other reforms, real and imaginary, capitalist America presents an obscene picture. Millions are unemployed; millions more are working part time (not by choice); workers' standard of living continues to erode (despite capitalist bragging that productivity is on the increase); the despicable social evils of racism and other forms of discrimination are on the upsurge; the nation's educational system continues to deteriorate; the health system (currently under heated debate) remains a long way from any road to improvement; the nation's infrastructure continues to disintegrate with increasing rapidity; environmental pollution of such vital resources as water, air and land, and the resulting threat to our health and well-being, is widespread; the use, or misuse, of drugs is rampant, and crime and corruption are pervasive at all levels of society.

Yet, it is against this social background of long-standing problems and growing evils, and the social misery they impose, that we are currently being bombarded with a new round of claims and predictions that better times for *all* the people of the nation are just around the corner. The semantics not only get more convoluted as capitalism's cast of apologists attempt to sell the American workers a bill of goods regarding the state of the economy and the promise it holds for them and their families, it also reflects a considerable degree of contempt for the intelligence of the workers, as well as a callous indifference to both their current plight and their dismal future.

In one way or another, all the problems and evils detailed above stem from the critical contradictions of the capitalist system of private ownership of the means of life, particularly the contradiction between the socialized production through which the working class produces all the social wealth and the private appropriation of that social wealth by the capitalist class by virtue of its ownership of the means of production. And since the state bends all its efforts and services to maintaining that basic economic relationship between the two classes, its policies have never resolved and can never resolve the problems stemming from it.

Capitalism's defenders offer a host of rationalizations for the recurring depressions, but none touch on the basic contradictions inherent in the capitalist system that cause it. This pamphlet does! As the brief introduction to the first edition notes:

"These articles [that comprise the contents of the pamphlet] cut through the mystifications of capitalist histories of the Depression to expose the antisocial character and inherent instability of the capitalist economy that caused it."

In the days ahead, as long as capitalism lasts, there will be much more discussion of the capitalist economy as it goes through its periodic cycle of economic ups and downs. Those who uphold the system will continue to juggle statistics and manipulate facts as they offer involved analyses and tortured explanations of the anarchy and chaos those cycles of "boom" and "bust" impose on society, often changing them within days, even hours, after voicing them. All of which will serve, deliberately or otherwise, to obscure the fact that the capitalist system has reached the point where it is totally incapable of functioning in a rational manner or dealing effectively with any of the problems that derive from its inherent defects and contradictions.

Accordingly, those who await a "miracle cure" for the capitalist economy's problems, including its recurring depressions, within the social, political and economic framework of the capitalist system, do so in vain. What's more, the overwhelming majority of the people—the working class—have no stake in making the system work, even if that were possible. It's a system that benefits only the small class—the capitalist class—that owns the means of life.

The bitter irony of the situation is that today, in these United States, there is no justification whatsoever for the involuntary poverty of a single individual. The instruments capable of producing a material abundance for all, and a working class capable of managing and operating those instruments in the collective interest of all society, are—and long have been—readily at hand.

NATHAN KARP

February 1994.

Introduction

In the fall of 1979—almost fifty years to the day after the October 1929, stock market crash—a wave of near-panic enveloped the stock exchanges and reverberated throughout monopoly capitalism's financial institutions. The uncanny timing of those financial jitters not only gave impetus to the search for parallels between current economic trends and those which preceded the Great Depression but also thrust the prospect of capitalist economic collapse ever more to the forefront of the public consciousness.

In the months since, the prospects of a fundamental economic breakdown of the capitalist system have been dramatically heightened. An inflation rate nearing 20 percent—a level at one time unthinkable in the world's most powerful capitalist nation—caps a host of economic dilemmas. These, in turn, have fueled a series of grim economic forecasts, each gloomier than its predecessors.

Reflecting the pervasive ruling-class fear that the future of its system is not only bleak, but also increasingly beyond the control of its once-confident economic experts, the March 10, 1980, issue of *Business Week* took a none-too-optimistic look at the "runaway economy." One "expert" it cited candidly predicted "national bankruptcy" unless the most extreme remedies were adopted—and even these were offered with no guarantees.

While capitalist economists and politicians contemplate the future, workers and their families are rapidly becoming acquainted with hard times today. Real wages are being undermined at an increasing rate; plant closings are on the rise; tens of millions remain unemployed or underemployed; consumer debt continues to soar; a house, the "American dream," moves ever further beyond the reach of the average family, etc.

However, even the current economic straits faced by the working class pale in the face of the social catastrophe that would develop in the event of international capitalist collapse. Not only would economic hardship reach enormous dimensions, such collapse would also usher in a new wave of totalitarianism that would not easily be turned back. In this regard, *The New York Times*, on February 3, 1980, cited a study by Gunter Schmolders, a West German economist. Dealing with the period 1963–1973, the study found "that of 40 countries whose inflation reached 15 percent in that period, 38 'abolished their democratic institutions in one way or another.'"

In light of the gravity of this developing situation, taking the time to review the crisis of an earlier era might at first glance seem an unaffordable luxury. However, there are good reasons for workers to take another look at the Depression of the 1930s.

True, there are many differences between the capitalist world of that era and its nuclear successor—though the differences are hardly comforting ones. But, underlying those differences are some basic truths about the nature of capitalism that will help workers understand what is happening today—and, more importantly, enable us to respond to events in a way that will serve working-class interests.

The bulk of this pamphlet is based on articles first published in October and November 1979, in the *Weekly People* (now, *The People*), the official journal of the Socialist Labor Party. These articles cut through the mystification of capitalist histories of the Depression to expose the antisocial character and inherent instability of the capitalist economy that caused it.

The articles go on to unmask the self-serving character of the inflationary policies the capitalist class has used in an effort to forestall a crisis even greater than that of the 1930s. In the process, the anti-working class bias of current economic policies is made evident. It is further demonstrated that the capitalist class's economic manipulations are doomed to failure.

Readers of the original articles may note that some changes have been made in preparing the text for re-publication. Though the bulk of the text—and the analysis—are unchanged, editorial changes have been made in hopes of improving the clarity and readability of the material. At the same time, a certain degree of overlap in the articles has been retained. This overlap, originally provided to maintain continuity from one issue of the *Weekly People* to the next, will hopefully serve to emphasize key points without imposing an inordinate burden on readers.

To these articles a new section has been added positing the socialist alternative to economic austerity and to the capitalist system's ultimate total collapse. Drawing on the lessons of capitalist crises, it counter-poses the rationality and industrially-based, working-class democracy of a socialist society to the anarchy and anti-working class bias of the profit-motivated capitalist system which, in the five decades since the onset of the Depression, has only added to its antisocial legacy.

May 1980.

What Caused the Depression?

CAPITALIST MYTHOLOGY

For decades, the Depression has been described, dissected, and rationalized by the capitalist system's leading economic wizards. But most bourgeois accounts of capitalism's greatest economic debacle to date are incomprehensible blends of fabrication and mystification. Such accounts often are also distorted by the nostalgia of an increasingly panicky ruling class, which longs to return to the time when its economic problems were free of the complications confronting monopoly capitalism in this nuclear age.

Perhaps no greater fabrications attend capitalist histories of the Depression than those regarding the state of the economy on the eve of the "Great Crash." On this score, capitalist historians paint a rosy picture of unbridled prosperity in a carefree society that could boast of a car in every backyard and a chicken in every pot.

The state of the economy and the lot of the average worker at that time are frequently described in terms similar to those used by Herbert Hoover, who told voters in 1928, "We in America today are nearer to the final triumph over poverty than ever before in the history of and land. The poorhouse is vanishing from among us."

However, Hoover's characterization, and those of bourgeois historians who continue to offer nostalgic remembrances of the "Roaring '20s," reflect the myopia born of narrow class interests. Pre-depression America was a picture of prosperity all right—but only in the eyes of the capitalist minority who enjoyed it. For the working-class majority, the status quo of the 1920s was something else entirely.

Assessing whether or not capitalism was working as it's supposed to depends, of course, on one's criteria. And by most conventional ruling-class criteria, capitalism was doing just dandy. The decade leading up to the Depression was marked by an economic boom that saw industrial production go up 30 percent from 1919 to 1929. As *Business Week* wistfully summed up the situation, "unit costs were low, prices were stable or falling, and profits soared."[1]

However, even consummate capitalist apologists like *Business Week* occasionally feel compelled to acknowledge that maybe everybody wasn't sharing

[1] *Business Week*, Sept. 3, 1979, page 9.

equally in the fruits of prosperity. As a matter of fact, when you come right down to it, *Business Week* grudgingly admitted, "More income flowed to those already wealthy."[2]

Elaborating on this point, *Business Week* noted: "Despite huge gains in productivity, wages actually fell for part or all of the 1920s in mining, transportation, and manufacturing. The result was a 'shift to profits' . . . which pitched much of the income gain to high-saving, high-income groups. From 1919 to 1929, the share of disposable income received by persons in the top 1 percent of the income distribution rose to 18.9 percent from 12.2 percent, while the share of the top 5 percent climbed to 33.5 percent from 24.3 percent."[3]

The "vanishing poorhouse" cited by Herbert Hoover was thus actually visible on virtually every corner. While capitalists wallowed in profits, 60 percent of the country's million families earned less than the $2,000 a year needed in 1999 just to buy the basic necessities.

Moreover, workers' paychecks came from jobs characterized, in *Business Week's* words, by "tortuously long hours of work, poor conditions, and a rigid authoritarianism. . . . " *Business Week* added that companies "could fire workers for joining unions, force them to sign a pledge not to join a union as a condition of employment, require them to belong to company unions, and spy on them to nip unionism in the bud. Some 200,000 company spies were at work in the nation's factories and mines in 1928."[4]

Such were the "good ol' days" workers enjoyed just before the Depression. The likes of *Business Week* may relish repeating the timeworn stories of the maid or chauffeur turning a few overheard stock tips and a few bucks a week into a fortune through speculation. But such tales, whatever small element of truth they may contain, bear nothing in common with the general condition of the working class in 1929. From the workers' vantage point, only the depths of the depression make the 1920s look good.

As for bourgeois analyses of what caused the Depression, these, too, are studies in mystification that only Marxian economics can unravel.

The usual ruling-class "explanations" revolve around the complexities of the stock market, unbridled speculation, and the economic policies that the capitalist

[2] Ibid., page 7.
[3] Ibid., page 18.
[4] Ibid., page 26.

class did or didn't use to deal with the situation. But even today, the competing schools of economic thought on how to administer capitalism continue to argue about the causes of the 1930s collapse.

As *Business Week* observed: "The prevalent Keynesian orthodoxy holds that the Depression represented a failure of the free-market system to create enough demand for maintaining full employment. . . . "[5]—a view which explains nothing while setting some sort of record for understatement.

Competing with this conventional wisdom is the "monetarist" school of thought represented by Milton Friedman. This group champions the view that "the Depression was caused by the perverse behavior of the one arm of government that was powerful in the 1920s and early 1930s—the Federal Reserve System—rather than by any inherent tendency toward instability in the private sector."[6]

However, since the "logic" and language of such ruling-class explanations of the Depression's causes are equally incomprehensible, many bourgeois historians seem content to give them equal time, blending them together in the familiar "no-one-factor-will-explain-it" theory of history that obscures, and/or diverts attention from, some more obvious and telling truths about capitalism.

Representative of this approach was a five-part retrospect of the Depression that appeared in the *Christian Science Monitor*. In that series, Richard Strout Summarizes the causes of the economic collapse as "weak corporate and banking structure, questionable foreign balances, a speculative binge in which the American people plunged into mass make-believe, the supreme folly of the Smoot-Hawley tariff imposing the highest duties in history while insisting on payment from other nations of $11 billion in loans, even the interest on which could only be paid by selling goods to the U.S. . . . And the final cause—lack of purchasing bower, the maldistribution of income. The steelworkers on 12-hour shifts, the farmers working from dawn to dark, didn't have income enough to buy the goods they produced, to take the things off the market."[7]

Typically, the reference to inadequate working-class purchasing power is relegated to the bottom of the list, diluted by the contention that numerous other factors bear equal responsibility for the economic collapse, and couched in terms that obscure the class-divided basis of capitalism.

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[5] Ibid., page 12.

[6] Ibid.

[7] *The Christian Science Monitor*, Oct. 5, 1979. page 15.

From the ruling-class's perspective, references to "lack of purchasing power" and "maldistribution of income" certainly sound better than saying that the Depression was rooted in the exploitation of workers by capitalists and in the resulting inability of workers to purchase back a vast portion of the goods and serviced they alone produced. But such sleight of hand cannot negate the fact that, contrary to Milton Friedman's contention, the Depression was very much the product of an "inherent tendency" under capitalism.

Indeed, the Great Depression, while of exceptional duration and dimensions, was preceded by numerous economic downturns and has been followed by many others. The term, "Great Depression," itself had to be borrowed from an earlier era. Prior to the 1930s, it was used to refer to the severe depression that swept the United States in the 1870s. Moreover, notwithstanding the highly touted prosperity of the 1920s, the U.S. economy was, between 1870 and 1930, in a depression for at least as many years as it was not. This alone suggests that there are social forces underlying capitalism that periodically engender new crises.

Unlike capitalist apologists, who seek to make trivial the causes of the Depression by citing a particular conjuncture of circumstances or a particular economic policy, Marxists point out that the Depression was a product of the economic relationships that define class-divided capitalist society.

Certainly, the Depression cannot be explained as a natural disaster that suddenly befell society. Resources did not suddenly disappear; workers did not inexplicably decide not to work; people did not suddenly decide to be poor. Society's needs and its physical capacity for satisfying those needs remained intact.

However, under capitalism, the productive forces are not at the disposal of society as a whole; rather, they are owned and controlled by a tiny capitalist minority. Production is thus carried out to serve the profit interests of a relative handful of capitalists rather than to satisfy democratically determined social needs. And when the dictates of the profit motive do not coincide with society's needs, the latter simply remain unfulfilled regardless of society's physical capacity for satisfying them. This is true even in times of so-called prosperity. But during a depression, this characteristic of capitalism reaches its fullest expression.

A thorough Marxist explanation of how capitalism works would, of course, require volumes. Nor is it possible within the context of a brief review like this to present more than a few highlights of Marxian "crisis theory," which examines in greater detail the process by which capitalism reproduces its "boom-bust cycle."

However, by taking a brief look at what Marx had to say about the rate of profit, workers can begin to develop a working-class perspective on the Great Depression that will also be useful in assessing what is in store for us today.

THE FALLING RATE OF PROFIT

The working class was hardly living in the lap of luxury during the period of prosperity capitalists enjoyed in the 1920s. Still, the economic crash of October 1929, ushered in a decade-long depression that drove workers to new depths of poverty and misery. Why did it happen?

The Depression can only be understood as the product of a social system in crisis. The Depression was neither a natural disaster nor a random stroke of bad luck. It was neither caused by faulty government policies nor generated by inadequate stock market regulations. Rather, it was the predictable product of the economic laws that govern capitalism the world over.

Workers were not unemployed in the 1930s because there was no work to be done. Working-class families did not starve because society lacked sufficient capability to produce food. Nor did society lack the capability to produce the other necessities of life. But the economic relationships and class divisions that define capitalism constituted—as they still do today—a barrier between society's needs and its capacity to satisfy them. In a very real sense, then, the Depression was a vivid expression of capitalism's inherent antisocial character.

The economic dilemma that capitalism repeatedly creates and then imposes on the working class can best be explained by taking a brief look at the thing that makes capitalism go—and, periodically, stop—namely, profit.

Both bourgeois economists and Marxists agree that profit is the motive force of a capitalist economy. The former, however, strip the profit motive of its class content and thus deny its class implications.

Profit, according to defenders of capitalism, is the reward for sound business judgment and market savvy. Even more, as if there were some natural law, high profits are said to coincide with the needs and wishes of society as a whole. Thanks to the impartial competitive marketplace, decisions made by capitalists on how and what to produce are supposedly tested. Proper decisions on how society's needs can best be served are rewarded with profits; bad ones with bankruptcy. Or so the fiction goes.

The conviction that profit-motivated production is a godsend to society undoubtedly consoled many capitalists during the Depression. But profit has little to do with what society wants or doesn't want. Rather, profit is the ransom the capitalist class is able to extract from society by virtue of its ownership of, and control over, the means of production. Profit does not serve the interests of society as a whole; it serves only the class interests of the capitalist minority.

The nature and level of economic activity in the country are basically governed by the decisions capitalists make regarding how—and if—to invest their capital. These decisions, in turn, are dictated by the rate of return capitalists can expect to reap. If one business venture is likely to yield a greater rate of profit than another, the first will draw the economic resources controlled by capitalists. And when keeping those economic resources idle and/or in the bank seems likely to yield a better return than any available business venture on which capitalists are willing to risk capital, economic activity will stagnate.

Things are fairly straightforward to this point. Capitalists invest where they can make the most money. However, as Marx pointed out, stagnation is bound to occur periodically under capitalism because the long-term tendency is for the rate of profit to fall.

This is not to say that the absolute amount of profit necessarily falls. Nor is it to say that the rate of profit never increases. Numerous factors can, and have, temporarily offset the general tendency of the rate of profit to drop. Still, in the long run, this tendency asserts itself. To understand why, we need to revert to some Marxist basics.

As Marx explained, capitalists reap profits by paying workers wages that are equivalent to only a fraction of the values workers collectively produce. The difference—the values created by workers less the wages they receive—is kept by the capitalist class and constitutes what Marx called surplus value. The ratio of the surplus value to the total capital the capitalist had to invest in the productive process is the rate of profit.

To understand why the rate of profit tends to tall,—it is first necessary to examine briefly the two basic types of capital—constant—capital and variable capital. Constant capital consists of things like machinery, buildings, raw materials, and other inanimate elements of production. Variable capital consists of human labor power. Accordingly, if we call surplus value, sv, constant capital, c, and variable capital, v, the rate of profit is represented by the ratio, $sv/(c + v)$.

(It should be noted that while capitalists, who are interested in the most lucrative utilization of all the resources under their control, attempt to tailor investments to maximize the rate of profit, this ratio is not an accurate measure of the exploitation suffered by the working class. That exploitation is expressed by the ratio, sv/v, the rate of surplus value. The rate of surplus value obviously is much higher than the rate of profit and correctly conveys what fraction of the wealth workers collectively produce is robbed from them by the capitalist class.)

It is clear from the above formula that the rate of profit is directly affected by the total capital—constant plus variable—used in production. However, the rate of profit is also affected by the *relative amounts* of constant and variable capital employed. This is so because only variable capital—human labor power—can be a source of new value and, thus, of surplus value.

Constant capital is necessary in production, but a capitalist cannot cheat a machine or a piece of iron ore. The full value of the machinery, raw materials, factory buildings, and other constant capital used in production is ultimately transferred to the finished products. For example, if $100 worth of cloth is used to make a suit, that amount of constant capital reappears in the finished garment. No surplus value is generated.

Such is not the case with human labor power, which alone has the ability to create new social values. Of the new values created by their labor power, however, workers receive back in the form of wages only a fraction. The rest of the new values created by workers becomes surplus value, the source of profit, and accrues to the capitalists.

Many factors can impinge on the magnitude of the rate of profit. In the long run, however, the dominant factor is the basic tendency for the ratio of constant capital to variable capital to increase. In general, this reflects the constant drive under capitalism to displace labor by introducing new and more sophisticated machinery and technology into the productive process.

In other words, though human labor power—variable capital—is the only source of surplus value, competition continuously compels the capitalist to eliminate variable capital from the sphere of production. As this takes place, the ratio of constant capital to variable increases—a phenomena Marx referred to as the increasing organic composition of capital. The percentage of the total capital employed that can yield surplus value thus declines—and with it, the rate of profit.

There are, of course, a number of ways by which the capitalist tries to offset this tendency for the rate of profit to fall. Primarily, the capitalist will seek to increase the rate at which surplus value is extracted from the variable capital still being employed. In other words, the capitalist may employ fewer workers but, to sustain a high rate of profit, will try to exploit more intensely those workers who are left. This typically involves speedups, wage reductions, and the like.

Alternatively, the capitalist may attempt to divert capital to an industry in which the organic composition of capital is relatively low (or to entirely new industries made possible by technological developments) and the rate of profit relatively high.

However, capitalism periodically reaches a point at which the increased exploitation of workers cannot compensate for the `increasing organic composition of capital. Aggravating this situation is the fact that capitalists find it increasingly difficult to realize a profit by displacing of commodities in the marketplace. The capitalist may be robbing the workers blind at the point of production, but unless the capitalist can sell the stolen goods, profits cannot be realized. This is where the "lack of purchasing power" cited by bourgeois economists comes in. Accordingly, sooner or later, the capitalist cuts back production, lays workers off, and awaits circumstances offering a more favorable rate of profit.

Such favorable circumstances do not magically reappear. They can only result from an economic readjustment that tilts the equation for the rate of profit in the other direction. Since the underlying cause of the falling rate of profit is an increase in the organic composition of capital, the readjustment takes the form of a decrease in the organic composition of capital—i.e., a decline in the percentage of total capital that takes the form of constant capital. This entails the "devaluation" or "destruction" of constant capital.

This is the "service" performed by a depression like the one that engulfed the 1930s—the systematic destruction and/or devaluation of the capital resources that an earlier period of capitalist "progress" had made available.

Typically, this means the bankruptcy of large numbers of capitalist firms which were part of the prior era of prosperity. Many such companies are simply written off as a loss, their capital resources allowed to rust or rot. Many other companies are taken over by larger capitalists at a fraction of the value they once commanded, in effect "devaluing" the capital.

Marking the 50th anniversary of the Depression, *Business Week* noted, for example, that "total bankruptcies in the Depression came to 85,000."[8] Another

[8] *Business Week*, op. cit., page 12.

study estimates that "the total capital invested in the U.S. was reduced by roughly one-third as a result of the widespread bankruptcies during the Great Depression."[9]

This is not to suggest that the resolution of capitalism's periodic confrontation with a falling rate of profit is simply a matter of writing off the resources of thousands of capitalist concerns. Establishing the precondition for a return to capitalist profitability entails a major convulsion that is neither controllable nor snort-lived. Despite a decade of systematic destruction and devaluation of capital, for example, the country was still in the throes of the Depression in 1939. Only World War II broke the economic logjam.

It also must not be forgotten that both the Depression and the war that marked its end took an enormous toll in working-class misery. During the 1930s, the devaluation of constant capital was accompanied by the devaluation of variable capital. In other words, the developments paving the way for a restoration of the rate of profit included the lowering of the living standards of workers and their families. Wages pummeled, along with the number of workers who were still able to draw them.

In 1933, 25 percent of the labor force was unemployed. According to *Business Week*, "13 million persons out of [a work force of] 52 million in a nation of 122 million" were out of work. Summarizing the "dimensions of the Great Depression," *Business Week* went on to cite "breadlines, clusters of tarpaper shacks called 'Hoovervilles,' and gray armies of job hunters . . . [as] the symbols of the period."[10]

The conventional wisdom now being publicly peddled by the capitalist class is that the Depression cannot happen again. Glib political commentators prate about the "fact" that it would not be politically acceptable today for the governing bodies of capitalism to "permit" a 25 percent unemployment rate. And economic pundits maintain, despite the near panic that hit the stock exchanges in the fall of 1979, that too many controls and regulations have been instituted since the 1929 stock market crash to permit a replay of the Depression.

But if capitalism has changed since 1929, it has hardly done so in a way that makes a resolution of capitalism's inherent contradictions any easier. For superimposed on the falling rate of profit is a nuclear-armed world that is far more complicated and dangerous than the one that existed 50 years ago. The war that "solved" capitalism's economic dilemmas in the late 1930s is no longer tenable.

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[9] *Root & Branch*, Issue #7 (no date), page 6.
[10] *Business Week*, op. cit., page 12.

Destruction of capital is one thing; nuclear warfare is quite another. Moreover, 53 years have vastly diminished the effectiveness of the inflationary remedies capitalism has used to keep itself going.

For the moment, the capitalist class continues its efforts to stave off a full-blown recession—and the accompanying massive devaluation of capital by increasing the rate of exploitation, hoping thereby to bolster the rate of profit. Though capitalism's economic policies are being peddled under nonpartisan banners, all have been designed to limit or lower wages while increasing productivity. Recent years have seen a resurgence of capitalist-class efforts to turn back some of the gains workers secured during periods of greater profitability.

There is no reason to believe that the capitalist class will be successful in preventing an economic downturn. even more severe than the one that has already materialized. But the fact that any success the capitalists have will come at the expense of workers belies ruling-class claims that workers have a stake in helping capitalists make the effort.

For workers, the only alternative to another depression is the fundamental alteration of the capitalist relations of production. This alteration entails the socialist transformation of society, the elimination of profit-motivated production, and the institution of a socially-owned economy in which production is carried on for use according to the dictates of democratic working-class organizations.

The Depression's Inflationary Legacy

INFLATION: A RULING-CLASS POLICY

The capitalist class has never been too fond of the suggestion that there is an inherent tendency in the "free-enterprise system" to engender periodic economic crises. So it is not surprising that *The Wall Street Journal* would contend that it is nothing more than "one of those unfortunate accidents of history . . . [that] the Federal Reserve's new efforts to get a grip on inflation come just as the nation is celebrating the 50th anniversary of the great crash."[11]

However, only ruling-class apologists like the *Journal* can fail to see a connection between the collapse of the 1930s and the current economic straits of inflation-ridden capitalism. The two are intimately related, and the relationship is anything but accidental.

Indeed, future history books may well define the five decades since the fateful 1929 stock market crash as the decisive chapter in the capitalist system's march to final disintegration. That chapter begins with capitalism's most pervasive economic collapse to date and is ending with the breakdown of the economic devices the ruling class has used to postpone an even greater breakdown.

Accordingly, this is an appropriate time to investigate the economic forces—and class motivations—that have compelled the capitalist class to pursue the inflationary policies that have brought their system to its current critical juncture.

Our purpose—to develop a working-class perspective on the inflationary course capitalism has taken since the Depression—can best be served by cutting through the economic jargon capitalist sources constantly peddle to mystify the inflation issue. Where such jargon is not deliberately calculated to blame workers for the problem, it is usually designed to make the current economic crisis incomprehensible.

Moreover, while much can be learned about the capitalist system by delving into the intricacies of the Federal Reserve system, the international monetary system and the like, deciphering such complexities is not essential to an understanding of the class character of capitalism's problems. This discussion will therefore confine itself to the broader causes and implications of the inflationary economic policies embraced as a consequence of the Depression.

[11] *The Wall Street Journal*, Oct. 29, 1979, page 24.

As we have noted, the Depression can only be understood as a product of capitalism's economic contradictions. Capitalism periodically reaches a point at which it cannot, without a massive economic readjustment, continue serving the profit interests of the capitalist minority that owns and controls the means of production. While the development of the productive forces under capitalism makes it possible for society to produce an ever greater volume of goods and services, that development also brings with it a barrier to such production, specifically, the tendency for the rate of profit to fall.

This tendency stems from the fact that the development of the productive forces is generally characterized by the displacement of human labor power by increasingly sophisticated machines. In Marxist terms, this economic characteristic is referred to as the increasing organic composition of capital, in which constant capital (machines, buildings, raw materials, and other inanimate elements of production) increases relative to variable capital (human labor power). This trend directionally undermines the rate of profit because only variable capital is a source of new social value—and thus, of profit.

Capitalists seek, through various means, to offset the tendency for the rate of profit to fall. These efforts primarily involve increasing the rate of exploitation—through speedups, wage reductions, and the like—or channeling capital into spheres of production in which the organic composition of capital is relatively low, and the rate of profit thus relatively high.

But such steps cannot fully compensate for the tendency of the rate of profit to fall. Accordingly, sooner or later, the capitalist cuts back production, lays workers off, and awaits circumstances offering a more favorable rate of profit.

The classical capitalist remedy employed to establish "more favorable circumstances" was a depression, which laid the basis for a higher rate of profit by systematically destroying or devaluing the capital resources that an earlier era of relative capitalist prosperity had generated. Factories and the other components of constant capital were allowed either to rot or to be taken over by larger capitalists at a fraction of their original value.

Faced with the system's economic collapse in 1929, many capitalists were prepared to weather just such a readjustment. Like then-Secretary of the Treasury Andrew Mellon, they saw no alternative but to let the economic slump "liquidate itself."

However, offering a far more sanguine view of the alternatives open to capitalism was an economist whose name has since become synonymous with government-orchestrated inflation—John Maynard Keynes. According to Keynes, there was nothing wrong with the capitalist system that a little government intervention couldn't cure.

Contradicting the dogma of classical bourgeois economists, who still couldn't envision a world any better than one dominated by laissez-faire capitalism, Keynes had the audacity to suggest that maybe capitalists should face up to the fact that free-market competition couldn't guarantee equilibrium between production and consumption at conditions of full employment.

Given that the world was in the depths of a depression in which a large percentage of society's productive capacity lay idle in the midst of unprecedented economic want, this conclusion was hardly profound. Still, Keynes's acknowledgment of this fact and his presentation of an economic approach that would supposedly enable the capitalist class to deal with the contradictions of the profit system marked a turning point for bourgeois economics.

Of course, the idea that the exploitation of the working class carried with it a few contradictions was nothing new to Marxists. Marxists had long pointed out that such exploitation necessarily gives rise to a situation aptly described as a "crisis of overproduction," a socially absurd situation in which economic life is stifled by the fact that workers have produced far more than they can buy back, their needs and desires notwithstanding.

Not surprisingly, Keynes formulated the contradiction a little differently. The problem, in his view, was not overproduction, but a deficiency of "aggregate demand" that could easily be remedied by the intervention of the capitalist state in the economy.

Reduced to its essential conclusion, Keynesian economics argued that whenever capitalism was confronted with market stagnation and insufficient capital investment, the federal government could come to the rescue by increasing its own spending—financed, if necessary, by making use of its money-creating printing presses or financial institutions.

In an attempt to obscure the anti-working class bias of capitalism's inflationary policies, ruling-class spokespersons frequently characterize deficit spending as an expression of the system's social altruism—the capitulation of the state to "special interests" through various spending programs that improve the economic lot of the unemployed, the sick, the indigent, etc. (This despite the obvious fact that most government spending is directed into antisocial ventures like militarism.)

However, inflationary Keynesian policies were instituted to serve only one "special interest" group—the capitalist class. Inflation is a ruling-class policy designed to serve its interests and its interests alone.

Keynes made no bones about this. Far from being an unbiased academician who happened on a new economic approach, Keynes was an unabashed defender of the capitalist system who regarded government economic intervention as necessary for the system's survival. In *The General Theory of Employment, Interest, and Money* Keynes defended "the enlargement of the functions of government" in part because he saw such intervention as "the only practicable means of avoiding the destruction of existing economic forms in their entirety. . . . " [12]

"Avoiding the destruction of existing economic forms" naturally entailed serving the profit interests of capitalists. And the inflationary mechanisms suggested by Keynes served that purpose not because they enabled capitalism to achieve equilibrium at a state of full employment—(except in times of war, capitalism has never even come close to that)—but because they enabled capitalism to systematically transfer wealth from workers' pockets to capitalists. In essence, inflation was a device for reducing wages and bolstering profits.

Mention has already been made of the fact that capitalists have always tried to compensate for the tendency of the rate of profit to fall by increasing the rate of exploitation, often by direct wage cuts. Keynes's approach had advantages for capitalists because inflation accomplished the same objective *indirectly* by increasing prices faster than wages. This indirect method of increasing exploitation not only tends to prevent, or at least postpone, direct confrontations between capitalists and workers over wages but also shifts the blame for workers' declining living standards from wage-cutting capitalists to the inflation-creating government.

That this was the motivation behind Keynes's suggestions is not a matter of conjecture. As an article in the magazine *Monthly Review* pointed out, "capitalist employers were directly influenced by Keynesian advice not to fight the unions too hard over money-wage bargains. It was pointed out that business profit margins could easily be protected by raising prices to compensate, or *overcompensate* for the wage increases."[13] (Emphasis added.)

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[12] John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, (New York: Harcourt, Brace & World, Inc., 1965), page 380.

[13] Jacob Morris, "Stagflation," *Monthly Review*, Dec. 1974, pages 2–3.

Moreover, as Keynes himself argued, "Every trade union will put up some resistance to a cut in money wages, however small [but] no trade union would dream of striking on every occasion of a rise in the cost of living. . . . " [14]

Rank-and-file workers are displaying a growing militancy that challenges such ruling-class assumptions. However, this does not alter the fact that an inflationary economic environment inherently places workers in a catch-up position because prices of goods and services are set after the labor costs incorporated in them have been settled or paid. With inflation now undermining the purchasing power of workers' paychecks at an increasing rate, few workers would challenge the validity of these observations.

The above analysis cuts to an important truth. With the capitalist class disseminating numerous arguments blaming workers for inflation or, at best, trying to obscure inflation's class character, it is important to clearly identify inflation as a policy implemented by and for the capitalists.

THE LIMITS OF INFLATION

"Americans have come to recognize the costs of inflation, and now they are about to feel the prolonged pain of its cure. Whether they have the determination to undergo the shock treatment may well decide the course of the U.S. economy for years to come."

This is how the October 22, 1979, issue of *Newsweek* summed up the economic dilemma now confronting capitalism. The summary typifies ruling-class efforts to obscure the class nature of the economic policies that have orchestrated this dilemma and to pave the way for a continuation of the anti-working class policies capitalists hope will bail their system out of even deeper economic hot water.

Implicit in *Newsweek's* "you made your bed, now sleep in it" sermon is the contention that inflationary policies were implemented in response to the needs and demands of working people. As if every federal dollar were being earmarked for programs enhancing the quality of life for America's working-class majority, ruling-class propagandists argue that government is no longer capable of financing the education, health, and welfare programs that "society" has demanded in the wake of the Depression.

However, the Keynesian theories that spawned five decades of government-

[14] Keynes, page 15.

induced inflation emanated from ruling-class circles. They were embraced by capitalists who recognized that such economic measures serve their interests.

The historical mythology that fills capitalist accounts of the Depression paints a picture of benevolent capitalism running the government printing presses in order to save the working class from poverty and misery. But the "radical" programs embraced by Franklin Roosevelt—who ran for president in 1932 on a platform calling for a balanced budget—were implemented because the ruling class hoped they would restore profitability to the capitalist system at the workers' expense.

Briefly recapping the points made thus far; Capitalism found itself in the 1930s in the throes of an economic collapse characterized by a severe decline in capital investment. As one observer put it, "In the 1930s it was evident that the enormous capacity of monopoly capitalism to create surplus value was severely blocked by internal barriers to realization of surplus value, i.e., by barriers of real capital formation."[15]

The main "barrier" was a falling rate of profit, and the results were an inability to sustain economic expansion, a precipitous drop in economic investments, and near-total economic stagnation.

Underlying the declining profit rates that brought capitalism to these dire straits was the increasing organic composition of capital—that is, the general displacement of workers by machines and the concomitant reduction in the source of capitalist profit—human labor power.

In an attempt to compensate for this trend, the capitalist class sought ways to increase the rate of exploitation of those workers still needed in production. These efforts took many forms, but generally fell into two categories intensifying the work process to force workers to produce more surplus value during the course of the working day, or decreasing wages.

In prior economic downturns, the capitalist class had accomplished the latter in ruthless and brazen fashion, unilaterally imposing wage cuts. But this approach has its drawbacks, primarily a tendency to produce incensed workers. During the depressions of the late nineteenth century, for example, such direct attacks on wages had sparked strikes that still rank among the most bitter in labor history.

Accordingly, in the 1930s, with a fourth or more of the work force already unemployed and social unrest mounting, the capitalist class was understandably receptive to another approach that would yield the same result.

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[15] Morris, page 6.

The inflationary approach outlined by Keynes filled the bill. Writing in *The General Theory of Employment, Interest, and Money,* Keynes told the capitalist class that it could exploit "the actual attitude of workers towards real wages and money-wages respectively" to its advantage.[16]

Keynes argued that "although a reduction in the existing money-wage would lead to a withdrawal of labour, it does not follow that a fall in the value of the existing money-wage in terms of wage-goods would do so, if it were due to a rise in the price of the latter. In other words, it may be the case that within a certain range the demand for labour is for a minimum money-wage and not for a minimum real wage."[17]

Translated into English, what Keynes was telling the capitalist class was that if it attacked wages directly, it could expect to have annoying strikes on its hands. Such labor militancy could, however, be avoided by orchestrating a decline in the purchasing power of wages.

Within certain limits, he argued, workers would not perceive, or in any event not be set in motion by, the declining purchasing power of their paychecks, if they still appeared to be getting the same amount of money each week in their pay envelopes. "Whilst workers will usually resist a reduction of money-wages," he told the ruling class, "it is not their practice to withdraw their labour whenever there is a rise in the price of wage-goods."[18]

In short, while ruling-class apologists like *Business Week* like to promote the fiction that government programs during the Depression "were not designed to stimulate the economy . . . [but rather] were social-welfare programs to help the victims of the Depression," Keynes confesses to different motivations.[19]

To be sure, inflationary policies, in part, took the form of welfare programs to contain social unrest. But the degree to which alleviating working-class poverty was deemed an essential goal of government economic policy is belied by the almost insignificant level (by current standards) of government spending during the 1930s and by the fact that economic conditions for the working class barely fluctuated throughout the Depression.

Certainly, the budget deficits of the 1930s make Franklin Roosevelt look like a

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16 Keynes, page 8.

17 Ibid.

18 Ibid., page 9.

19 *Business Week*, op. cit., page 22.

piker even compared to today's self-professed fiscal conservatives. The largest federal budget deficit during the Depression was only a shade over $5 billion. After 1936 the annual deficit decreased (to only about $2 billion in 1938) until war spending took over.

Any doubts that it was the capitalist class that benefited from even those outlays can be erased by a quick review of the unemployment picture. Ten years after the Depression hit there were still 10 million unemployed. Government spending proved to be less than an immediate cure-all for capitalism's economic woes. The fact remains, however, that inflationary policies were perceived as a ruling-class program that would, in the words of one observer, hopefully "increase the rate of capital formation by redistributing income in favor of profits while simultaneously minimizing labor unrest."[20]

In this connection, it might be well to point out here that the Keynesian approach also has often been used by the ruling class more as a propaganda tool than as an economic response to the contradictions of capitalism. As Jacob Morris, writing in Monthly Review, summed up this point, " . . . this [Keynesian] system was as often the rationalization as the inspiration for actions taken by governments and central banks. Thus the massive U.S. government expenditures for war, nuclear and other armaments, and assistance to reactionary client governments all over the world, were not undertaken to implement the Keynesian theory of effective demand. It was rather that the Keynesian theory was utilized to rationalize the allegedly beneficial effects of these socially vicious expenditures."[21]

Indeed, while capitalists harp on the fiction that deficit spending has always been capitalism's response to a social mandate for full employment and ever expanding social services, it took an event of the most antisocial character—World War II—to "bring home the Keynesian message," as *Business Week* put it. The war, with its wanton destruction of human life, massive liquidation of capital and commodities, and unprecedented expenditures on socially wasteful production, *Business Week* boasted, "showed what massive government spending could accomplish."[22]

But government intervention has never proved capable of altering the economic laws that drove the capitalist world to economic stagnation in 1929. Bourgeois

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[20] *Root & Branch*, op. cit., page 38.
[21] Morris, page 2.
[22] *Business Week*, op. cit., page 22.

economists today harken back to an era when inflation was more of an asset than a liability to the capitalist class. But they conveniently overlook the important fact that inflation served capitalist interests only in conjunction with other developments that collectively restored profitability to the system.

Inflationary policies to increase the rate of exploitation and thus enhance profitability were embraced by the ruling class in an effort to postpone the painful economic readjustment capitalism had endured in earlier depressions. But in the final analysis, such policies were not enough. What restored profitability to capitalism was the mass destruction of capital in the war, the government-financed, antisocial production for military purposes, and the postwar technology boom that created whole new industries not yet plagued by a high organic composition of capital and correspondingly unfavorable profit rates.

Yet, however successful this conjuncture of developments may have been in ushering in a new era of capitalist prosperity—and ignoring, for the moment, the horrifying human toll taken in the process—events are now reconfirming that Keynesian theories, though biased in favor of capitalists, are incapable of delivering capitalism from the falling rate of profit.

While one bourgeois economist after another maintains that there are few, if any, parallels between 1979 and 1929, the facts speak otherwise. As Jacob Morris argues, " . . . the stagflation of the 1970s is the reemergence on a higher level of economic development of the stagnation of the 1930s. The crisis of the 1930s was widely appraised as a crisis of monopoly capitalism per se; the crisis of the 1970s, on the other hand, is the crisis of *government bulwarked* monopoly capitalism."[23]

In short, the economic stimulation made possible by wartime destruction, deficit spending, and the boom ill technology are about played out. The development of the means of production during and since World War II has made possible the production of enormous quantities of surplus value. However, the falling rate of profit has again created a situation in which there are too few sufficiently profitable outlets for surplus value to sustain capital investment and, with it, the expansion of production. (According to one Standard and Poors study, the average rate of profit on capital invested in the U.S. fell from about 14 percent in the mid-1960s to about 9 percent in the mid-1970s.)

The capitalist class has, in the main, responded to the situation in predictable fashion. It has sought to compensate for falling profit rates by turning the economic

[23] Morris, page 2.

screws on workers to increase the rate of exploitation. Though these efforts have taken many forms—giveback demands, assembly-line speedups, forced overtime, etc.—inflation has again played a major role. However, if inflation had limitations in the 1933s, inflationary policies are proving woefully inadequate to the situation now. There are three main reasons for this.

The first, though not necessarily the least significant, reason is the growing rebellion of working people against the inflationary policies that are gutting the buying power of their paychecks and lowering their standard of living. With inflation pushing 20 percent and workers being told to limit their wage and benefit hikes to less than 10 percent, the "attitude of workers toward money-wages, as opposed to real wages" is increasingly departing from the analysis advanced by Keynes.

To be sure, workers are still taking inflation on the chin. But partly because of working-class resistance, the transfer of wealth from workers' pockets to those of capitalists is not proceeding at a rate sufficient to solve capitalism's problems. And though the ruling class is still peddling propaganda about the "wage-price spiral" that has trapped the economy in a vicious inflationary cycle, such propaganda is increasingly falling en deaf working-class ears.

Secondly, Keynesian policies are now taking on the appearance of an economic Frankenstein as far as capitalist interests are concerned. In its editorial "commemorating" the 50th anniversary of the 1929 stock market crash, *The Wall Street Journal* voiced the ruling class's fears that rampant inflation was on the verge of destroying the financial superstructure of international capitalism. One "worrisome scenario for the Crash of '79 or '80 or '81," the *Journal* moaned, "is this: The Fed is pushed off its efforts to control money growth. Something close to hyperinflation strikes the dollar. Flight from the dollar destroys this international currency. The world trading system collapses and takes all national economies with it."[24]

Writing in The *Political Economy of Growth,* Paul Baran describes this aspect of the dilemma facing capitalists more directly. "Although under the impact of inflation profits increase and the distribution of income shifts in favor of the capitalist class," he writes, "the capitalist class itself is unwilling to risk the consequences of a major decline in the purchasing power of the currency. Undermining the possibility of rational calculation, depleting the liquid assets of

[24] *The Wall Street Journal*, op. cit., page 24.

firms and individual capitalists, inflation endangers the entire elaborate credit structure of modern capitalism and constitutes a considerable threat to banks and financial institutions."[25]

However, the bottom line on why inflationary policies are proving inadequate to the needs of the capitalist class is that the government expenditures counseled by Keynes have not—and indeed are inherently incapable of—offsetting the tendency for the rate of profit to fall. In fact, it is a measure of the contradictory character of capitalism that inflationary policies, while transferring wealth from workers to capitalists, ultimately worsen capitalism's prospects for restoring a high level of capital investment capable of sustaining a long-term economic upturn.

This is so because government spending is financed by the transfer to the state sector of surplus value extracted by the private sector of the economy. And while the state sector uses this income—which is lying idle in capitalist coffers because profit opportunities are, in capitalist terms, inadequate—it does so to increase the level of consumption. The state does not put it to use as capital.

Again, it must be remembered that underlying capitalist stagnation is the system's tendency to reach a point where, because of a declining rate of profit, it is unable to extract and capitalize enough surplus value to ensure continuing economic expansion. But government spending only aggravates the problem. Through taxation and borrowing, the state in effect depletes the capital resources of the private sector in order to finance increased consumption.

Conservative bourgeois economists like Milton Friedman are tacitly acknowledging this fact when they call on the government to abandon its illusions that deficit spending can put capitalism back on its feet. But such pundits overlook, or choose to ignore, the fact that such economic policies were themselves adopted to enhance ruling-class economic interests in the face of declining investments. What such calls amount to, of course, is a decision that capitalism has no choice but to resort to a recession, get the devaluation of capital over with, and then hopefully embark on a new round of profit-making under more favorable circumstances.

What this all adds up to is that the working class can look forward to a capitalist debacle regardless of which route the ruling class sticks to. The "liberal" economics and the "conservative" economics of the capitalist class are equally unattractive. Continued inflation will undermine workers' living standards, while failing to get to the crux of capitalist stagnation. A decision by the capitalist class to

[25] Paul Baran, *The Political Economy of Growth*, quoted in *Monthly Review*, Dec. 1974, page 12.

bite the recessionary bullet, on the other hand, holds out the promise of the devastating collapse that bourgeois economists like to say cant happen.

Capitalism's Next Crash: The Socialist Alternative

"After 40 years of inflationary manipulation, the Keynesian prophets are running out of miracles and the monetary system is riddled with holes. No really promising areas for expansion appear on the horizon, and U.S. capitalism meets increasingly strong opposition in every part of the globe. The post-World War II imperialist prosperity is apparently coming to an end.

"In the absence of any external stimulus (e.g., an international expansion not now in sight, or capitalism's more traditional 'solution' to economic crisis—war), the American ruling class will be able to maintain the profitability of its system only by significantly and visibly intensifying the exploitation of the working class here at home. There will be fewer social services and reforms. There will be more and more people moving through the reserve army of the temporarily unemployed into the permanent idleness of the 'surplus population.' There will be stiffer resistance to the demands of workers at every level and a perceptible sharpening of class conflicts."

This is how a Socialist Labor Party pamphlet on the unemployment situation summed up the economic state of capitalism in 1976. Time has verified the fundamental accuracy of this assessment. Indeed, the facts and figures that litter the pages of government and industry reports today suggest that capitalism's rendezvous with economic collapse may now be imminent.

If there are differences between the current economic and political atmosphere and that which prevailed when the above summary was written, perhaps the most striking are the increasing candor with which the ruling class is acknowledging the magnitude of the prevailing economic dilemma, and the growing cynicism with which it regards the prospects for the future. A few examples illustrate the point:

•Under the headline, "Economic Chaos," a survey of the prevailing gloom in ruling-class circles camped by Associated Press in March 1980, notes that "America s economy is in trouble. And the government hasn't been able to figure out what to do about it." One economist surveyed suggests that U.S. capitalism is "headed for a national bankruptcy." Says another: "We are lurching toward a national economic emergency." "The economy's woes," the article reports, "have produced turmoil on Wall Street."

•Reporting on what it termed "Global Gloom," *The Wall Street Journal* of March 18, 1980, offers the pessimistic forecast of Roy Jenkins, president of the

Common Market's executive commission. According to Jenkins, "We face no less than the breakup of the established economic and social order on which postwar Europe has been built. If we don't change our ways while there is still time—and 1980 could be the last opportunity—our society will risk dislocation and eventual collapse."

However, the failure of the Carter administration to come up with a coherent, let alone effective, economic policy to deal with this situation tacitly confirms that the economic crisis stems from the very contradictions that define the capitalist system in the first place. Insofar as private ownership of the means of production, the exploitation of workers, and production for profit are concerned, capitalism cannot "change . . . [its] ways."

Recently summing up the implications of this fact was Harry Magdoff, co-editor of the Marxist journal, *Monthly Review*. Responding to a request from *The New York Times Magazine* to present his views "on how the United States can extricate itself from its economic troubles," Magdoff wrote:

"Three propositions rest at the bottom of the accepted wisdom about the economy. These are: (1) The marketplace is or could be an evenhanded regulator of economic affairs. (2) Profit-making is a rational guide for investment and production. And (3) economists have a bag of tricks that can be used to produce a full-employment economy. These are outright fallacies . . . [in an] economy guided by profit-making. . . .

"Economists have no gimmicks to eliminate the inflation of the 1970's without inducing a major depresson: nor, within the limits of a capitalist society, do they know how to get rid of unemployment and poverty. It follows that the debates over money supply, interest rates and fiscal policy are irrelevant as far as the needs of the vast majority of the people are concerned. . . . "

Accordingly, Magdoff succinctly concludes, no progressive resolution of the current economic malaise is possible until people recognize that our economic and social problems are rooted in the nature of the capitalist system with no chance of being solved without the construction of a socialist society. What is really needed is a different social system—one that is directed to meet the needs of the entire society of producers in place of one that, when push comes to shove, promotes and protects business profits."[26]

It is with this objective in mind—the "construction of a socialist society . . . that

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[26] *The New York Times Magazine*, Dec. 30, 1979.

is directed to meet the needs of the entire society of producers"—that the Socialist Labor Party offers its program of socialist industrial unionism to workers.

Socialist industrial unionism speaks directly to the current economic crisis because it addresses the fundamental social fact from which that crisis stems—i.e., the private ownership of the means of production by a capitalist minority.

Such private ownership means that all economic activity in the country is dictated by the profit interests of a relative few rather than the social needs of the majority of working people who create all goods and services. Moreover, from this defining characteristic of capitalist production flow contradictions that materialize as social absurdities—extreme poverty in the shadow of obscene wealth, idle economic resources amidst widespread social needs, increased exploitation for the working-class majority in the face of the economic prerequisites for increased leisure.

Socialist industrial unionism posts the only rational alternative to such social absurdities—specifically, the revolutionary transformation of the means of production and distribution from privately owned property to socially owned property under the democratic control of the working-class majority that operates them every day.

Furthermore, socialist industrial unionism offers a program by which workers can organize to effect such a change and to establish a framework for operating the socialist economy such a change would make possible.

As to the former, socialist industrial unionism articulates the need for workers to organize politically to challenge the state power that the capitalist class now wields in defense of its system. It also articulates the need for workers as a class to organize economically into industrial unions that would fully tap the decisive social power workers are capable of exercising by virtue of their indispensable role at the point of production.

As to the latter, socialist industrial unions would provide the organizational framework of an economy in which workers would cooperatively and democratically carry on production. Organized along the lines of the economy they would be controlling, socialist industrial unions would unite all workers in each industry and then integrate all the industries at the local, regional, and national levels. The principles of workers' democracy—i.e., immediate recall of all representatives, abolition of bureaucratic privileges, etc.—would ensure that these bodies remained in the hands of the rank and file.

Socialist society would no longer be convulsed by the contradictions that are currently wracking capitalism because class divisions will have been eliminated. Production will be carried out for use rather than to serve the profit interests of a small minority. The inflationary policies that the ruling class has used to increase its share of the social wealth and to keep the wheels of exploitation going would no longer be invoked. There would be no "crisis of overproduction" due to the accumulation by the ruling class of commodities that workers cannot afford to buy. Society would no longer be threatened with economic stagnation at the whim of a few capitalists.

The lessons of the post-Depression era are clear. Capitalism cannot solve its economic problems. Even more, capitalism cannot serve the economic needs of workers. And, finally, the time is running out for workers to take the initiative in transforming class-divided capitalist society into a cooperative socialist commonwealth that will make economic depressions a thing of the past.

(THE END)