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Understanding the Significance of the Great Depression

A History of the Economic Analysis of the Great Depression in America, by William E. Stoneman. New York: Garland Publishing, Inc., 1979, 263 pp.; \$30.00 (U.S.). *From New Deal to New Economics: The American Liberal Response to the Recession of 1937*, by Dean L. May. New York: Garland Publishing, Inc., 1981, 204 pp.; \$25.00 (U.S.).¹

Only a few years ago it was an article of faith among most orthodox economists that the Great Depression of the 1930s was an unaccountable deviation from the natural course of capitalist evolution. They also thought that any further repetition of severe economic distress was inconceivable in the age of informed macroeconomic policy. Even now, establishment theorists continue to hold out against the notion that stagnation can be traced to the underlying pattern of advanced accumulation; but even the most active defenders of the status quo are no longer inclined to be entirely dismissive of the view that secular stagnation is the characteristic state of modern capitalism. Hence, the historical meaning of the Great Depression has once again become a major subject of interest, and there are signs that some of the long-forgotten legacy of criticism and debate by economic theorists of the 1930s is being rediscovered, with the sudden rebirth of open class struggle over the problem of chronic underemployment.

To my mind, the chief economic constraints interfering with the

smooth expansion of the capitalist order today are much the same as they were a half-century ago. Thus the present crisis has its proximate cause in an enormous potential to save out of actual and potential surplus, coupled with an atrophy of net investment.² Applied Keynesianism ran into trouble not, as most liberals and many radicals currently argue, because it supposedly reversed the conditions of crisis by undermining the social accumulation fund potentially available for investment, but because it added a further contradictory layer, in the form of state-promoted inflationary financing, on top of an undiminished substructural problem (endemic to monopoly capitalism) of a widening underemployment gap. From this perspective, the re-emergence of stagnation is best understood by viewing the entire path of accumulation from 1929 to 1933 as an internally consistent process of mature capitalist development. This means that some understanding of the long-run historical dilemma of advanced capitalist reproduction, previously most apparent during the Great Depression of the 1930s, is a prerequisite for confronting the reality of stagflation in our epoch.

Written in 1969 as a Harvard University doctoral dissertation, William Stoneman's informative study of liberal economic analyses of the Great Depression is all the more remarkable since it antedates the present world slump and the renewed proclivity to look back at "the crisis of the old order." In addition to the original dissertation, the published version of his *History* includes a new preface, which serves the two-fold purpose of briefly considering the *differentia specifica* (inflation rather than deflation) separating the current stagflation-ridden era from the conditions experienced during the 1930s, and of providing a cogent attack on the inanities of the monetarist interpretation.

The rationale offered by Stoneman for an exclusive concern with the U.S. experience of the Depression rests on the widely accepted view that the U.S. "led the international recovery of the 1920s, and then overwhelmed it in the Collapse of the thirties" (p. 1). Moreover, it can be argued that the downturn was both more severe in the U.S. than in other leading capitalist countries (with the exception of Germany) and more protracted (with official unemployment seven points higher than that of Britain in 1938).³ Given also that the U.S. was already emerging as the commanding economy in the world system, it is scarcely surprising that it became the classic case in the famous stagnation debate.

In any case, within these self-imposed limits, the coherence of Stoneman's account stems largely from his perception that nearly all of the leading insights within liberal thought in the U.S. during this period

— aside from those directly traceable to Keynes, who Stoneman quite rightly observes was “not . . . a truly dominant figure” — in the controversies from 1930 to 1936 (the date of *The General Theory of Employment, Interest and Money*) — emerged from the heterodox tradition of “institutional economics” (p. 2). This is more readily understood once one recognizes that business-cycle theory, the anti-trust issue, and the whole notion of managed capitalism, first entered liberal economics in the U.S. through the pragmatic, institutionalist rebellion against neoclassical orthodoxy and its characteristic disregard of empirical fact.

Given this outlook, Stoneman logically had to begin with a brief mention of the contribution of Thorstein Veblen, who provided a penetrating analysis of the capitalist order as a whole, the critical force of which is only dimly reflected in the work of his comparatively tame liberal “followers.” In fact, Stoneman is surely correct in his contention that the dominant institutionalist perspective during the late 1920s, on the very “eve of the onslaught,” represented a “perfect inversion” of the political and economic prognosis advanced by Veblen in his last and most radical study of U.S. capitalism, *Absentee Ownership and Business Enterprise in Recent Times: The Case of America* (1923).

Veblen, who was certainly a social radical, though not a Marxist, believed that the trend toward monopoly would tend to promote either “chronic depression,” if price competition got out of hand, or — and this he thought more likely as time went by — persistent stagnation in which the appropriation of “reasonable profits” (as he sardonically put it) would have its counterpart, under conditions of rapidly expanding productivity, in slow growth and rising unemployment and excess capacity (businesslike “sabotage”), leading eventually to a situation of more or less open class struggle. Veblen had naturally been much influenced by the long period of sluggish growth and increasing unemployment which characterized the U.S. economy from 1907 until 1915 (when the First World War began to have a favorable effect on the level of business activity), and by the deep crisis which immediately followed the war.⁴

The “New Era” enthusiasts of the late 1920s, impressed by what turned out to be a half-dozen years of fairly rapid growth, stood Veblen firmly on his head. Evoking a vision of affluence, they suggested that capitalism had finally found the concrete institutional answers guaranteeing the perpetual upward-moving equilibrium simply taken for granted by the purists of neoclassical economics. Paradoxically, as Stoneman points out, business-cycle analysis also came of age in these years. The contradiction is explained by the fact that knowledge of the cycle was often considered to be an adequate basis for its technical anni-

hilation, in the eyes of certain New Era proponents like Rexford Tugwell, a Columbia University economist.

An influential economic publicist of the time, Tugwell had impressionistically borrowed a number of themes from Veblen's work, and saw himself as a friendly critic of the new corporate order. His main thesis, developed in his *Industry's Coming of Age* (1927), and widely held among institutionalists of the day, was that big business had learned to maintain the high wages necessary to ensure a smoothly running economic machine, and an end to the worst aspects of industrial strife.

The prediction of a new golden age for capitalism in the immediate future was not unusual. Probably the most respected economist in the United States during the 1920s was the business-cycle theorist Wesley C. Mitchell. Far less inclined to prophesy an end to serious downturns in the business cycle than Tugwell, Mitchell nonetheless vastly overestimated the force of prosperity. In the spring of 1929, as Stoneman records it, Mitchell and the National Bureau of Economic Research over which he presided declared that the high-wage and high-consumption policy of the large corporations (a myth based on a misreading of Fordism) was turning out to be a successful blend of theory and practice. Continuing prosperity was to be expected, provided only that management went on making the best of its technical "intelligence."

The Crash, which came a mere six months later, therefore hit the fabled New Era like a ton of bricks. Between 1929 and 1933, total U.S. national output declined by nearly 30 percent. At its deepest point in 1933, unemployment stood at 24.9 percent. Moreover the long, slow, upward climb of national production that followed was suddenly cut short in the 1937-38 downturn, with unemployment, which had diminished to 14.3 percent by 1937, rising again at the end of the year and reaching a full 19 percent in 1938.⁵

The more-orthodox neoclassical economists (with the notable exception, as nearly always, of Schumpeter) had never been inclined to see the economy in its essentials as a changing order, and there was also no solid tradition of Marxian economics in the U.S. at the time. The main counter-attack against New Era institutionalism therefore came from institutional economics itself. Politically and temperamentally geared to limited social reconstruction, the institutionalists slid fairly easily from New Era contentment to New Deal demands for reform. After an initial period of embarrassment, theorists like Mitchell and Tugwell shifted gears, emphasizing a weak consumption base and the trend toward monopolistic control of the economy as the main internal destabilizing factors behind the crisis.

With considerable insight, Stoneman points out that "the older

Veblenian critique of rigidity and over stabilization" had "latent affinities for underconsumptionism" (p. 40). The most influential among thoroughgoing underconsumptionists in the U.S. during the 1920s and early 1930s were William Trufant Foster and Waddill Catchings. In *Profits* (1926), and a number of other volumes written in the years immediately prior to the Depression, they argued that the new corporate wage policy, frequently associated with Henry Ford, did not go far enough. According to Foster and Catchings, expanding productivity had created a "dilemma of thrift," in contradiction to the traditional neoclassical delusion of Say's Law of Markets (the notion that supply creates its own demand), which they firmly denied. Instead, Foster and Catchings argued that higher savings, viewed as withdrawals of purchasing power from consumption, tended to exacerbate an already chronic problem of consumer demand. Judged by present-day post-Keynesian standards, their theoretical apparatus was not a sophisticated one because of the failure to construct an adequate explanation of the determinants income, savings and investment (not to mention the absence of any real understanding of the class basis of accumulation). But with the sudden onset of the Great Depression, which had caught nearly all other liberal theorists completely off-guard, Foster and Catchings seemed to be receiving powerful support in the winds of historical change. In 1931, they simply argued that productivity had risen by some 54 percent between 1900 and 1925, while real wages had grown by only 30 percent (p. 37).⁶

Impressed by this type of social criticism, other liberal heretics were quick to follow suit. One of these was George Soule, a leading economic commentator, and editor of *The New Republic*. In *The Planned Society* (1932) and *The Coming American Revolution* (1934) he enlarged on notions of underconsumption and price rigidity, which in his view combined to make it difficult to clear the market of potential output under modern conditions of rapid technological advance. Another was the clever publicist and self-styled Veblenite, Stuart Chase, who argued in *The Nemesis of American Business and Other Essays* (1931) that the economic ravages of the day were due to a state of overcapacity in relation to unheard-of levels of consumption. In his later book, *A New Deal* (1932) (which Stoneman calls a "gallantly eclectic treatment"), Chase pursued a theme already developed somewhat by Foster and Catchings and later emphasized by Soule, arguing that the automobile market had become "saturated," with little chance for further expansion at the previous rate since the entire market was increasingly oriented to mere replacement demand. Concurrently, Tugwell's latest treatise, *The Industrial Discipline and the Governmental Arts* (1932), naively argued for state control of industrial prices to combat the

structural inadequacy of consumer demand.

Price rigidity, which formed such a large part of institutionalist criticism, was traced, as with Veblen, to monopolistic tendencies, evident to nearly everyone (aside from willfully blind neoclassical purists) since the turn of the century. But the cumulation of vast amounts of irrefutable evidence was something else again. Given the circumstances of the time, the appearance in 1932 of *The Modern Corporation and Private Property*, by Adolf Berle and Gardiner Means, carried thunderous implications. This landmark study emphasized the vast concentration of ownership over industrial assets assumed by the 200 largest non-financial corporations, which had increased their control over industrial assets at a rate 40 percent higher than all other non-financial corporations in the years 1908 to 1929.⁷

Stoneman tells us how over the next several years Means cautiously proceeded to make explicit some of the implications of modern corporate structure for interpretations of the Great Depression. By 1934 he was pointing out that the Depression would have been much less severe if the huge industrial firms had allowed prices to fall in conformity with earlier, more competitive capitalist conditions.

A far more penetrating historical inquiry, entitled *The Decline of Competition* (1936), was penned by the socially concerned liberal economist Arthur R. Burns (not to be confused with the conservative Arthur F. Burns). Paul Sweezy has referred to the book by Burns as "the classic study" of the "whole process" of monopolistic control by large U.S. firms in the early part of the century.⁸ Stoneman himself interprets it as perhaps the most explicit attempt by a major U.S. economist in the 1930s to link oversavings, overcapacity and underconsumption to the growth of monopolistic elements in the economy. But he raises his own doubts about the empirical basis of Burns's argument that an overaccumulation of productive capacity, under conditions of monopolistic competition, laid much of the groundwork for the Depression, claiming instead that the famous Brookings Institute study of 1934, *America's Capacity to Produce* by Edwin Nourse and associates, had conclusively demonstrated that there was no trend toward rising excess capacity in the 1920s.

It seems worthwhile to point out, in defence of Burns, that Stoneman's contention here is based on two estimates that the Brookings Institute provided for the overall operating rate in U.S. manufacturing: an average of 80 percent for the period 1925-29 and 83 percent for 1929. These estimates were anything but conclusive in themselves since later, more-detailed, year-by-year estimates, rooted partly in the Brookings Institute study itself, have consistently backed up the conclusion that idle capacity in manufacturing and mining rose

quite steadily and dramatically from 1923 (the point of full recovery from the depression which had followed the First World War) until 1928; a slight decline occurred in 1929 due to the short wave of financial speculation and unwarranted investment that immediately preceded the Crash.⁹

Arthur R. Burns went on to advise limited state control over monopolistic regulation of price and output. From a radical point of view, this was simply a brand of "utopian reformism" at best, but to staunchly conservative liberals it was conceived as a threat all the same.

As long as institutionally oriented liberal economists were caught up in the grand myth of a New Era, more-orthodox theorists greeted them with friendly (if sometimes rather contemptuous) toleration. But suddenly faced in the Depression years with a rebellious type of institutionalism that was aimed, often very successfully, at both the critical masses and newly arising governmental élites, the more conservative economists struck back with all their might.

In this, Alvin Hansen and Joseph Schumpeter, often thought of as heterodox, institutionally minded economists themselves, took the lead. Hansen was already well-recognized for his contributions to business-cycle theory. In his 1932 book, *Economic Stabilization in an Unbalanced World*, he traced the chief cause of existing economic difficulties to the pattern of international payments. But the more contentious part of his analysis stressed the constraint of wage rigidity (much more than price rigidity). Because of a strong savings-investment bent (at the time)-Hansen, in Stoneman's words, "rallied against underconsumptionist as well as reflationist notions" (p. 43).

A more critical response to would-be economic reconstructionists was delivered by Schumpeter. In a 1934 essay entitled "Depressions," he advanced the view that severe contractions were simply phases of the recurrent business cycle.¹⁰ And although state intervention might help out in certain exceptional cases, unwise political intrusion could easily do very serious damage, since recovery would otherwise come "of itself" after the lapse of a short period of time. Schumpeter thus stood fast against what he saw as the most dangerous tendencies of the New Deal.

Perhaps the most complete expression of the standard neoclassical position was provided by the English economist Lionel Robbins in *The Great Depression* (1934). In this work, Robbins straightforwardly advanced the view that the real problem was too much consumption, or high wages, and the resulting deficiency of savings for investment. In fact, strict neoclassical adherence to Say's Law precluded virtually every other explanation of structural crisis.

Given this early "stand-off" in the views of liberal economists,

Stoneman reserves his greatest praise for John Maurice Clark's moderate institutionalism. The core of Clark's contribution, which provided the underlying theme for all of his later work, was the famous concept of the accelerator. Economists had long been aware of, and disturbed by, the observable tendency for investment to outpace consumption during prosperity and to recede faster in a downturn. For radical theorists, who were the first to emphasize the problem, this simply seemed to reflect the entire pattern of capital accumulation, which demanded a more rapid growth in the means of production (Department I in the Marxian reproduction schema) than in articles of consumption (Department II). The various theories of realization crisis within Marxian analysis, in particular, were rooted in this conception of things. But since such notions of periodic overaccumulation (or overcapacity) seemed to suggest that chronic disequilibrium and a kind of irrationality were built into the capitalist system, neoclassical theorists found this point of view rather alarming.

One way of getting around this while explaining the greater instability of investment was the Schumpeterian idea — first developed in *The Theory of Economic Development* (1911) — of autonomous investment based on clusters of innovations. But another more formula-minded attempt was the accelerator model, the socio-economic implications of which were developed most fully by Clark in his *Strategic Factors in Business Cycles* (1935).

The basic idea was simple enough. A movement in the rate of consumption in either direction had a positive, accelerated impact on investment. Stoneman, who loses his bearings here, stresses the obvious consumption orientation of this approach; but he very much overemphasizes its accord with the entirely different underconsumptionist framework. In actual fact, the accelerator model was generally opposed to all accumulation-based and radical underconsumptionist theories (at least as long as it was seen as the prime determining force), since it traced the internal dynamic of the system to small fluctuations in consumption demand, which directly induced much larger movements in investment, rather than conceiving the relative stability of consumption as a natural consequence of the accumulation of capital.¹¹

Clark's emphasis on the degree to which investment was directly induced by consumption led him to develop a large number of haphazard insights into the respective role of various "strategic factors" in the production of goods. His most important theme in this regard was the attention that he gave to the rapid growth of consumer durables in the share of output in mature economies. Since a large part of this type of consumption was a one-shot affair, or at least could be deferred in hard times — so the argument went — the system was all the more

vulnerable, given the accelerator effect, to erratic consumer demand, a decline in which could lead to a deep and prolonged depression.

In 1936, after more than two-thirds of the Great Depression had passed, John Maynard Keynes published his magnum opus, *The General Theory of Employment, Interest and Money*, which was to expedite a partial turnaround in mainstream economic analysis. *The General Theory* was quite simply a devastating attack on Say's Law of neoclassical thought, from one of the most respected economists of the time. In its essentials, it recognized that a leakage from the expenditure stream in the form of savings would have a negative effect on aggregate demand and the level of output, unless it were also injected back into the expenditure stream in the form of investment in new productive capacity. However, there was no automatic mechanism (such as the rate of interest in the traditional neoclassical system) which ensured that all intended savings would necessarily be invested — particularly when accumulation, under modern conditions of rapid productivity growth, expanded savings out of profits faster than primarily wage-based consumption. A drop in the level of income due to oversavings would inevitably bring total savings (*ex post*) back into conformity with actual investment, but under conditions of “unemployment equilibrium” deemed impossible in orthodox thought at the time.

The reception given to *The General Theory* in North America was inextricably bound up with the sharp cyclical decline of 1937. The drop in the level of U.S. industrial production during the six months between August 1937 and January 1938 was as great as the decline in the first thirteen months following the 1929 stock market Crash. From peak to trough, the 1937-38 downswing saw a 28 percent reduction in the total employment level (May, p. 4). Needless to say, this came as a salutary shock to orthodox economists. Prior to this it was generally assumed that the long period of recovery, going back to 1933, would automatically lead to full recovery “of itself” (as Schumpeter had put it). Discussion of the Depression had therefore focused on the causes of the Crash. But now the issue of secular stagnation, conceived as a trend upon which the normal cyclical pattern was overlaid, came to the fore.

The whole problem was reflected in the title of Alvin Hansen's notable work of 1938, *Full Recovery or Stagnation?* Confronted with the disastrous economic turn of events in 1937, Hansen quickly moved away from the conventional neoclassical position and became Keynes's best-known advocate in the U.S., helping to launch Harvard into the very forefront of the Keynesian revolution. Moreover, Hansen sought from the very beginning to solve the historical stagnation (or rising underemployment) problem, virtually taken for granted in Keynes's more abstract, and largely short-run, perspective. Hansen was deter-

mined to find the concrete historical reasons for the seeming inability of investment (or real capital formation) to keep up with the enormous modern potential to save. Why had catastrophic conditions reappeared without the economy having first returned to the secular growth path of the late 1920s?

Hansen's answer, developed in *Full Recovery or Stagnation?* and extended in *Fiscal Policy and Business Cycles* (1941), pointed to a number of key historical factors: (1) the closing of the frontier; (2) the downdrift in population growth; (3) the gradual consolidation of the vast national transportation network; (4) fluctuations in the lengthy building cycle — tied, in Hansen's initial view, to population growth; and (5) the growing tendency for business to implement labor-saving innovations that were capital-saving as well. All of this fitted into the general perspective, advanced by Keynes, that stagnation was due to a growing state of industrial maturity. And Hansen, as Stoneman (p. 136) notes, added that the problem of enduring stagnation might eventually eclipse, to some extent, that of the business cycle itself.

Although many economists, for reasons of recent history and Keynesian theory, were concerned about the problem of secular stagnation, few found Hansen's ideas entirely convincing. His most powerful critic was Joseph Schumpeter, whose ideas nonetheless overlapped with those of Hansen in a number of significant ways. Schumpeter, who developed his views in this area in two of his greatest works, *Business Cycles* (1939) and *Capitalism, Socialism and Democracy* (1942), designated Hansen's thesis as "the theory of vanishing investment opportunities," and argued that although it was not entirely implausible when considered in terms of the long-run transformation of capitalism, it had little bearing on the 1937-38 conjuncture. Though he admitted, as Stoneman (p. 159) perceptively notes, that major innovations likely to be implemented in the immediate future might well be "less capital absorbing" (or more capital saving) than in the past, and that this was a conceivable cause for concern (from an "anti-savings" standpoint), he went on to argue that the chemical, electrical and automotive industries still offered plenty of room for the *extensive* investment of capital. Characteristically, he added that "the conquest of the air" might prove to "be as important as or more important than the conquest of India," in generating capitalist expansion.¹²

But Schumpeter of course did not stop there, and Stoneman's designation of his position as an "antithesis" to that of Hansen tends to obscure the obvious fact (not entirely missed by Stoneman) that Schumpeter also adopted a long-run stagnationist perspective. In *Business Cycles*, Schumpeter had developed further the idea (first

advanced in a famous 1935 article, "The Analysis of Economic Change") that the onset of the Great Depression was caused by the convergence of the inventory cycle (or "Kitchens") and the normal business cycle (or "Juglar") with the long cycle (or "Kontradieff") — which Schumpeter traced primarily to the working through of epoch-making innovations like the railroad and the automobile. But this did little to clarify the massive 1937 downturn, which Schumpeter referred to as "the Disappointing Juglar." To explain this he developed a whole critique of changing political and sociological foundations of capitalism (implicit in his thought for many years), suggesting that a growing anti-business climate (the New Deal being a case in point), and the gradual displacement of the heroic entrepreneurial function through "the mechanization of 'progress'" by the modern corporation, made the end of dynamic capitalism, and the rise of socialism as its "heir apparent," virtually inevitable. Although Schumpeter attributed the sharp decline of 1937-38 primarily to anti-business politics, it was the sociological annihilation of the entrepreneur as the bulwark of the capitalist class which would eventually generate a stationary state fatal to capitalism.¹³

Probably the most important extension of the purely historical argument on secular growth trends, in the period following the initial debate between Hansen and Schumpeter, was to be found, as Stoneman suggests, in Walter Isard's analysis of "the transport-building cycle." In a number of articles published during the Second World War, the most important of which was "Transport Development and Building Cycles," Isard showed a significant correlation — going back as far as the early nineteenth century — between expansion and contraction in the transport sector and movements in the fifteen- to twenty-year building cycle — both for the entire U.S. economy and on a smaller urban scale (in the case of Chicago).¹⁴ Major fluctuations in the building cycle, Isard argued, were largely dependent on transport-based innovational revolutions. The expansion of the 1920s could then be traced, Stoneman explains, to "autos and construction as the unitary backbone of the system" (p. 189).

Given the thesis that the automobile industry had reached full or at least partial maturity — a view prominent at the time — the possible stagnationist implications of Isard's theory were fairly obvious. A decline in automobile expansion could lead to a contraction in the entire construction sector as well, thus inducing vast multiplier effects. In fact, this was a reasonable hypothesis for what had occurred in the 1930s. But Isard, who went on to become one of the leaders in the field of regional economics, resisted any such interpretation of future prospects, suggesting rather incredibly that before long "each family may have its airplane, as it has its automobile today," and that this would

“constitute the basis for a post-war building boom” through “the further dispersion of urban population into outlying territories.”¹⁵

In the final chapters of his book, Stoneman tries to emphasize the supposed synthesis that arose in the following decades out of the fusion of institutionalist, Keynesian and neoclassical views. But his search for evidence of theoretical transcendence in the work of Robert Gordon, Paul Samuelson, James Dusenberry, and others, has a strained quality about it. Symbolic of this is the importance which Stoneman attaches to various attempts to combine the Clarkian accelerator and the Keynesian investment multiplier into a mechanistic notion of cumulative causation. Despite the academic heroism of such undertakings, they had little in common with the root and branch concerns raised by the institutionalists, or with the related question of secular stagnation. The Great Depression itself became an irrelevant issue for most mainstream economists, utilized at most to defend a fiscalist or monetarist policy bias. Or so things stood until the underlying problem resurfaced, as stagflation, in the early 1970s.

If there actually was a higher synthesis that carried forward the main concerns of the 1930s — and I believe this to be the case — it lay far outside Stoneman’s vision, within the Marxian tradition. Three years before the publication of *The General Theory*, all of the essentials of the new theory of the level of output were anticipated by Michal Kalecki, unbeknownst to Keynes, in a set of essays published in Warsaw.¹⁶ The Kaleckian theory was an attack on Say’s Law rooted in the tradition of Marx and Luxemburg. Its two main foundations were the overall conception of the class composition of output contained in Marx’s reproduction schemes, and the later theory of capitalism’s monopoly stage. According to this vision of things, to be found in Kalecki’s *Theory of Economic Dynamics* (1954), modern tendencies toward over-exploitation and under-investment (or stagnation) were tied directly to the cost, price, output and investment strategies of individual giant firms.

The secular implications of the Kaleckian general theory, and its historical meaning for U.S. capitalism, were later exhaustively examined in Josef Steindl’s masterpiece, *Maturity and Stagnation in American Capitalism* (1952), which was systematically ignored by the guardians of received economics.

In fact, Alvin Hansen, virtually alone among major liberal economists, seriously appraised Steindl’s contribution. In a 1954 article, entitled “Growth or Stagnation in the American Economy,” Hansen contrasted the three main theories of secular stagnation developed by Schumpeter, Steindl and himself, suggesting, with some justification, that Steindl’s pure monopolistic accumulation theory, despite its con-

siderable merit, was an inadequate basis for a determinant historical explanation of under-investment and stagnation, since it failed to consider autonomous (non-income induced) investment outlets provided by major innovations, population growth, geographical expansion, etc.¹⁷

In this sense of confronting the wider historical issues not directly tied to the logic of accumulation, *Monopoly Capital* (1966) by Paul Baran and Paul Sweezy represented a further advance on the perspective introduced primarily by Kalecki and Steindl. It not only clarified certain aspects of the neo-Marxian thesis of overaccumulation under monopoly capital, but also incorporated many of the historical insights presented during the long U.S. debate over the significance of the Great Depression — particularly where Veblen, Hansen and Schumpeter were concerned.¹⁸

Yet these and related works by major radical theorists on the issues raised by the 1930s receive absolutely no mention in Stoneman's *History*. This is simply another instance of "the great evasion" of the Marxian challenge, which has become a mainstay of North American liberalism.¹⁹ Unfortunately, this failure to come to grips with a half-century of radical thought on the subject has the effect of impoverishing Stoneman's study — a study which, in most other respects, is both impressive and useful.

Dean May's treatise, dealing with the effect of the 1937 "recession" on liberal economic policy in the U.S., complements Stoneman's earlier analysis of the theoretical issues. Its focus is on the developing split within New Deal fiscal policy, which in 1938 resulted in a clear victory for the spenders over the budget balancers.

The U.S. controversy over federal spending dated back to the budget reform movement in the second and third decades of this century. For 82 of the 112 peacetime years prior to the First World War, the federal budget had recorded surpluses (p. 27). During the decade 1910-20, progressives argued that the introduction of a centrally controlled budgetary system would be the first step in putting government on a sound basis. But it was not until the growth of deficits during the First World War, and the difficulty in clearing the debt afterwards owing to the depression which followed, that the matter became an urgent one for liberal reformers. Hence, the Budget and Accounting Act, creating some degree of executive authority over the budget, was passed in 1921. More important, the state of the federal budget became, in the liberal mind, the leading economic indicator for the entire U.S. system. The whole question of balancing the budget thus took on an ideological significance that completely overshadowed larger social issues.

During "the First" or conservative New Deal and beyond, Roosevelt stuck to the idea that a balanced budget was both the main indicator of full recovery, and the key to ensuring continued strength in the economy. The most adamant supporter of this position within the administration was Treasury Secretary Henry Morgenthau, who considered a balanced budget to be the final concrete objective of the New Deal, insofar as it would be its ultimate proof of economic success. In practice, even in its early, more conservative years, the New Deal involved a slightly less restrained and somewhat more need-directed spending program than had been the case under Hoover's presidency. But the amounts spent on social programs were nonetheless woefully inadequate, and were constantly cut back for budgetary purposes.

The fiscal opposition was headed by the pragmatic Chairman of the Federal Reserve, Marriner Eccles. A Utah businessman, Eccles had sufficient flexibility of intellect (and ideology) to draw inspiration from the work of W.T. Foster, adopting an underconsumptionist interpretation of the crisis, advancing the idea of government spending as the only route to full recovery, and yet rejecting any direct interference with the market.²⁰ In this he was allied with Harry Hopkins of the Works Progress Administration (WPA), who was strongly motivated by a humanitarian concern for the plight of the jobless poor.

The WPA, unemployment insurance, social security, the Wagner Act (giving the *de facto* right to organize), and the Civilian Conservation Corps (CCC), were all part of the logic of "the Second" New Deal, which culminated in Roosevelt's landslide 1936 re-election victory. A growing rebellion among the downtrodden had forced the development of a more populist governmental stance, as a pragmatic means of saving the capitalist order itself. The notorious business-oriented National Recovery Administration was swept away and replaced by more progressive institutional measures. But, aside from the transfer payments, these were considered mere stop-gap measures, to be eliminated as soon as signs of real economic recovery appeared; and a balanced budget was still seen as the main objective.

In April 1937 Roosevelt announced that a balanced budget was absolutely essential to the prosperity of the U.S., and declared that expenditures and receipts would soon cancel out. But a few months later, in August 1937, the sharpest economic downturn in U.S. history began, threatening the New Deal with what seemed to have all the makings of a repetition of the 1929 Crash, but beginning at a point still far below the 1929 employment level.²¹ Faced with the possibility of political and economic ruin, Roosevelt desperately reversed himself. In April 1938 he proclaimed that direct promotion of national income and employment was the overriding objective, to be accomplished by an enhanced

program of federal expenditures. The balanced budget goal was de-emphasized and deferred to the distant future.

By August 1938 a very limited "recovery" (with unemployment expected to fall somewhat below its 19 percent level) was seen to be in the works; and this was generally interpreted as a triumph for the spenders. A few months later, in November 1938, the first concrete policy product in the U.S. of the Keynesian revolution then occurring at Harvard — *An Economic Program for American Democracy*, issued by a number of young Keynesian economists (Richard V. Gilbert, George Hildebrand, Jr., Arthur W. Stuart, Maxine Y. Sweezy, Paul M. Sweezy, Lorrie Tarshis and John D. Wilson) — hit Washington, D.C., immediately becoming the accepted ideological foundation for prevailing fiscal policy. Then came the Second World War, and an increase in total U.S. national output (in real terms) of 70 percent in six years.²²

May's lucid historical analysis stands as a cogent reminder that the main fiscal battles had been fought to a finish in official channels, in favor of the spenders, well before Keynesian economics itself entered policy circles. But the expenditures advanced remained piddling, and the Depression might have dragged on interminably, if the Second World War had not finally emerged as a blessing (for business) in disguise.

The conditions of crisis are more complicated these days, but the root problem I think is still best characterized as one of overaccumulation, in the straightforward sense of oversavings and underinvestment. The tendency of gross profit margins (the mark-up on cost price) to widen, wherever monopoly capital is concerned, is a triple consequence of the scientific management of labour costs, the implementation of capital-saving innovations, and the inflation of planned supply prices. By thus appropriating surplus value at an accelerated pace, big business undermines effective demand in the economy as a whole, depressing both competitive investment by firms and wage-based consumption. Moreover, monopolistic firms refrain from investing in their own industries whenever there is any danger of a further unplanned build-up of excess capacity — all of which makes it likely that the economy will limp along at less than its warranted rate of growth (the rate at which all *capital* is fully employed). Naturally, this means that some potential income and savings are lost, and that realized profit ratios only partially live up to the promise of gross margins.²³

Caught in this bind, the standard recourse of monopoly capital has been to expand unproductive (and unreproductive) expenditures of all

kinds, as the most propitious means of "closing" the realization gap from the demand side, without at the same time enlarging the supply of productive capacity. Furthermore, the capitalization of such unproductive "assets," in the financial sector, is clearly a type of "spurious capital formation," which is gradually turning the whole debt-credit structure of monopoly capitalist society into a financial house of cards. In fact, this might be thought of as the immediate institutional environment of the current inflationary process (based, in the first instance, on monopolistic pricing).²⁴

None of this, of course, would have been possible without the enormous increase in state spending which has characterized the post-1939 era. And hence it comes as no surprise that *this time around* the state lies at the very center of the crisis (which is equally a crisis of the state). "The crisis of the 1930s," Jacob Morris writes, "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."²⁵ Indeed, the birth of stagflation was an inevitable result of the state policy of combatting stagnation by inflationary means. Naturally, other means of staving off stagnation are now being sought. But at present there are no especially effective internal means available to the state (while externally, the entire U.S. empire is eroding in the face of Third World revolution). And of those socio-economic means presently available which might prove effective in the hands of capital itself, there are none that do not require a further subordination of workers within the labour process (whether couched in terms of "participation" or not), thereby intensifying the class struggle.

Nevertheless, the outer condition of the U.S. economy remains indeterminate in the long-run. It is possible, and given enough time even probable, that investment will again expand on a sufficiently large scale to generate another period of moderate and even rapid growth — mainly due to the effect of major innovations. But, to my knowledge, there is no sign as yet that anything of the scale required will be forthcoming in the immediate future. Hence, there is every reason to suppose that chronic unemployment (not to mention underemployment) will persist for some time.²⁶

What then should be done here and now? Let me close by acknowledging that the Great Depression also had a political and social significance which is potentially far more important to the present as history than the economic issues discussed above. Numerous liberal theorists are now using the New Deal as a basis for constructing strategies to save capitalism. But the New Deal could be even more important to the Left. This is best explained in the words of Leo Huberman:

The question of jobs and peace is . . . intimately related to our monopoly

structure and the profit system. The issue is not whether we are for or against "free enterprise." The issue is whether our economy is to be run by monopoly capitalism for its own private ends, or by the people for their own welfare.

The common man must not forget the New Deal. It was a valuable experience. It gave the workers and farmers a sense of their own power. They learned that in order to be able to get any of the things they wanted they had to organize both politically and economically. And today, when the New Deal is rapidly becoming a memory, they must remember that lesson. They must redouble their economic and political activities. They want jobs and peace. They must take the initiative in getting them. And they will learn through their struggles that jobs and peace are attainable only under a system of production for use, not for profit.²⁷

Notes

1. I would like to thank Paul Sweezy for bringing these works to my attention, and for much else besides. I would also like to acknowledge the great debt that I owe to Gabriel Kolko, who introduced me in 1978 to some of the central issues considered here.
2. See Harold G. Vatter, "The Atrophy of Net Investment and Some Consequences for the U.S. Mixed Economy," *Journal of Economic Issues* 16:1 (March 1982), 237-53
3. Michael Alan Bernstein, *Long-Term Economic Growth and the Problem of Recovery in American Manufacturing: A Study of the Great Depression in the United States* (Ph.D. dissertation, Yale University, 1982), 3-4; W.W. Rostow, *The World Economy* (Austin 1978), 220. I am grateful to Harry Magdoff for informing me of Bernstein's provocative study.
4. See especially Thorstein Veblen, *Absentee Ownership and Business Enterprise in Recent Times: The Case of America* (New York 1923), 205-28, 398-445; idem, *The Theory of Business Enterprise* (New York 1904), 68-127; idem, *The Vested Interests and the Common Man* (New York 1919), 63-84; Paul M. Sweezy, "Veblen on American Capitalism," in *Thorstein Veblen: A Critical Reappraisal*, ed. Douglas F. Dowd (Ithaca, N.Y. 1958), 182-8; Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York 1966), 227-34
5. Lester V. Chandler, *America's Greatest Depression, 1929-1941* (New York 1970), 5, 20
6. Arthur M. Schlesinger, Jr., *The Crisis of the Old Order* (Boston 1957), 186-9; Micael Bleaney, *Underconsumption Theories* (New York 1976), 202-4
7. Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property* (New York 1932), 36
8. Paul M. Sweezy, *Four Lectures on Marxism* (New York 1981), 63n
9. See Arthur R. Burns, *The Decline of Competition: A Study of the Evolution*

- of *American Industry* (New York 1936), 266-72; Edwin G. Nourse et al., *America's Capacity to Produce* (New York 1934), 415-6; Baran and Sweezy, *Monopoly Capital*, 235-42 (see n. 4 above); and V. Lewis Bassie, *Economic Forecasting* (New York 1958), 681-92
10. Joseph Schumpeter, "Depressions," in Douglas V. Brown et al., *The Economics of the Recovery Program* (New York 1934), 3-21
 11. The accelerator is somewhat more acceptable when conceived of, in the modern version, as an income (rather than a consumption) effect.
 12. Joseph Schumpeter, *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process* (New York 1939), 2:1034
 13. See Alvin H. Hansen, *Full Recovery or Stagnation?* (New York 1941), 267-318; idem, *Fiscal Policy and Business Cycles* (New York 1941), 313-65; Joseph Schumpeter, "The Analysis of Economic Change," in *Readings in Business Cycle Theory*, ed. American Economic Association (Philadelphia 1944), 1-19; idem, *Business Cycles*, 2:1011-50 (see n. 12 above); idem, *Capitalism, Socialism and Democracy* (New York 1942), 111-21; Alan Sweezy, "Secular Stagnation?" in *Postwar Economic Problems*, ed. Seymour E. Harris (New York 1943); Paul M. Sweezy, "Why Stagnation?" *Monthly Review* 34:2 (June 1982), 1-10; and John Bellamy Foster, "Theories of Capitalist Transformation: Critical Notes on the Comparison of Marx and Schumpeter," *Quarterly Journal of Economics* (forthcoming, 1983).
 14. Walter Isard, "Transport Development and Business Cycles," *Quarterly Journal of Economics* 57:4 (November 1942), 90-112
 15. Ibid., 111
 16. See Michal Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy, 1933-1970* (New York 1971), vii, 1-14, 26-34
 17. Alvin H. Hansen, "Growth or Stagnation in the American Economy," *Review of Economics and Statistics* 36:4 (November 1954), 409-14; see also Paul M. Sweezy, "Maturity and Stagnation in American Capitalism," *Econometrica* 22:4 (October 1954), 531-3
 18. See Paul M. Sweezy, *The Theory of Capitalist Development* (New York 1942); Michal Kalecki, *Theory of Economic Dynamics* (New York 1954); Josef Steindl, *Maturity and Stagnation in American Capitalism* (New York 1976); Paul A. Baran, *The Political Economy of Growth* (New York 1957); Baran and Sweezy, *Monopoly Capital* (see n. 4 above); Sydney H. Coontz, *Productive Labour and Effective Demand* (New York 1966); Henryk Szlajfer, "Economic Surplus and Surplus Value: An Attempt at Comparison," *Review of Radical Political Economics* (forthcoming, 1983); and John Bellamy Foster, "Marxian Economics and the State," *Science and Society* 46:3 (Fall 1982), 257-83
 19. William Appleman Williams, *The Great Evasion* (Chicago 1964).

20. Arthur Schlesinger, Jr., *The Politics of Upheaval* (Boston 1960), 237
21. Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley 1973), 272
22. Robert L. Heilbroner, *The Making of Economic Society* (Englewood Cliffs, N.J. 1980), 160
23. See Jacob Morris, "Spurious Capital and the Rate of Profit," *Science and Society* 31:3 (1967) 302-23, and "Underconsumption and the General Crisis: Gillman's Theory," *Science and Society* (forthcoming).

Since the interpretation here does not square with some of the new tendencies in profit theory now current on the Left, several comments seem appropriate. First, in relation to the wage squeeze on profits theory, which is rapidly sweeping radical political economy, it is important to recognize that, *even if* net realized profit ratios fall while the share of real wages rise, this does not necessarily mean (so long as we view the matter from a surplus value or economic surplus standpoint) that high wages are squeezing profits at the point of production. Gross margins may still be widening. The main reason for the apparent contradiction is the fact that much of the total surplus value under monopoly capitalism (that part which forms the difference between actual and potential surplus in the analysis by Baran and Sweezy) is channelled into waste (unproductive and unproductive labour) which, quite apart from undesired excess capacity and output not sold, tends to have a detrimental effect on final profit ratios — acting, for the most part, *indirectly* through the rate of growth. See, for instance, Baran's reply to Kaldor: *The Political Economy of Growth*, pp. xix-xxii (see n. 18 above). On the interconnections between total surplus value, waste and economic surplus, see Henry Szlajfer's essay, referenced in note 18 above.

Second, given the fact that the whole notion of monopoly profits (and monopoly capital in general) is coming under increasing attack within the Left — see Willi Semmler, "Competition, Monopoly and Differentials of Profit Rates," *Review of Radical Political Economics* 13:4 (Winter 1982); and John Bellamy Foster, "Is Monopoly Capitalism an Illusion?" *Monthly Review* 33:4 (September 1981) — it is important to point out that an excellent new doctoral dissertation, which puts the empirical and theoretical analysis of monopoly profits and investment on a more solid footing, has recently appeared. See Joseph E. Bowring, *The Dual Economy: Core and Periphery in the Accumulation Process in the United States* (Ph.D. dissertation, University of Massachusetts at Amherst, 1982). It is interesting to note that Bowring, with infallible logic, proceeds to lay to rest, one by one, each of the right-wing, pro-trust studies upon which Semmler has unluckily based his empirical analysis. See also Howard J. Sherman, "Monopoly Power and Profit Rates," *Review of Radical Political Economics* (forthcoming).

24. Morris, "Spurious Capital and the Rate of Profit." (See n. 23 above.)
25. Jacob Morris, "Stagflation," *Monthly Review* 26:7 (December 1974), 2
26. For an interesting look at the problem of stagnation in basic innovations

from a Schumpeterian long-wave perspective, see Gerhard Mensch, *Stalemate in Technology: Innovations Overcome the Depression* (Cambridge, Mass. 1979).

27. Leo Huberman, *We, the People: The Drama of America* (New York 1960), 350-1