THE

IMPERILED ECONOMY

BOOK I

Macroeconomics from a Left Perspective

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THE IMPERILED ECONOMY

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MACROECONOMICS FROM A LEFT PERSPECTIVE

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The Editorial Collective

Table of Contents

Acknowledgements v

PART ONE: INTRODUCTION

1. The General Picture 3
   Cigdem Kurdas

2. Theories of Unemployment 7
   Robert Cherry

PART TWO: THEORETICAL PERSPECTIVES

3. An Introduction to Radical Theories of Economic Crises 19
   James N. Devine

4. Technical Change and the Contradictions of Capitalism 33
   David Laibman

5. Power, Accumulation and Crisis: The Rise and Demise of the Postwar Social Structure of Accumulation 43
   David M. Gordon, Thomas E. Weisskopf and Samuel Bowles

6. What Is Stagnation? 59
   John Bellamy Foster

7. The Role of Money and Finance in Marx's Crisis Theory 71
   Jim Crotty

8. Radical Theories of Inflation 83
   David M. Kotz

9. Transformational Growth and Stagnation 93
   Edward Nell

PART THREE: EMPIRICAL PERSPECTIVES

PROFITS

10. Marx's Crisis Theory and the Postwar U.S. Economy 105
    Fred Moseley

11. The Falling Rate of Profit and the Economic Crisis in the U.S. 115
    Anwar Shaikh

12. The Current Crisis in Light of the Great Depression 127
    Mark Glick

FINANCIAL INSTABILITY

13. Financial Instability and the U.S. Economy 139
    Henry Martin

14. Structural Change and Increasing Fragility in the U.S. Financial System 145
    Robert Pollin

PRODUCTIVITY

15. Cyclical and Secular Productivity Slowdowns 159
Michele I. Naples

THE SOCIAL WAGE

16. Class Struggle and the Macroeconomy: The Cost of Job Loss 171
Juliet B. Schor

17. The Welfare State and the Myth of the Social Wage 183
Anwar Shaikh and Ertugrul Ahmet Tonak

PART FOUR: INTERNATIONAL DIMENSIONS

18. Causes of the Debt Crisis 197
Cheryl Payer

19. Imperial Decline and International Disorder:
An Illustration from the Debt Crisis 205
Arthur MacEwan

20. The Promise and Pitfalls of Protectionist Politics 215
John Willoughby

21. International Competition, Economic Growth, and the
Political Economy of the U.S. Trade Deficit 225
Robert A. Blecker

PART FIVE: MACROECONOMIC POLICY

22. Accumulation and State Intervention in the 1980s:
A Crisis of Reproduction 237
John A. Miller

23. Federal Reserve Behavior and the Limits of Monetary Policy
in the Current Economic Crisis 247
Gerald Epstein

24. An Anatomy of the Reagan Recovery 257
Thomas R. Michl

25. On the Political Economy of Unemployment Policy 267
Francis Green

26. The Perils of Economic Ramboism:
The Next Recession Threatens Deflation and Depression 277
Andre Gunder Frank

GENERAL BIBLIOGRAPHY 289

STATISTICAL APPENDIX 307

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LIST OF CONTRIBUTORS 327

6

What Is Stagnation?

JOHN BELLAMY FOSTER

INTRODUCTION

For a majority of mainstream and radical economists, the answer to the question "What is Stagnation"? is fairly simple and straightforward and devoid of any real theoretical significance in and of itself. Either it is seen as a period of longer and deeper than average recessions, or it stands for a long-cycle downturn, which will be followed more or less automatically, after some 25 years duration, by a long-cycle upturn. However, in the case of most of those thinkers on the left who continue to emphasize the primacy of demand-side constraints on the accumulation process in "the present as history," the search for an answer to the above question is nothing less than an attempt to address the central contradiction of the mature monopoly capitalist system.

The purpose of this article is to uncover the complex historical logic through which the phenomenon of stagnation is manifested in modern capitalism, as explained in the work of such radical demand-side theorists as Michal Kalecki, Josef Steindl, Paul Baran, Paul Sweezy and Harry Magdoff. Beginning with the reasons why a condition of stagnation (the main traits of which are widening underemployment, stop-and-start investment and slow growth) has come to represent the normal trend-line of the modern economy around which the recurrent fluctuations of the business cycle occur, the analysis will then shift to a consideration of the various self-limiting forces that sparked the expansionary wave of the 1960s; and how a waning of these forces, or of their positive effects, has led in the 1970s and 1980s to a resurfacing of stagnation and a doubling-over of economic contradictions. The seriousness of the multi-layered crisis that emerges from such a conception of political economic evolution, will then be contrasted, in the conclusion, to the relative complacency engendered by the dominant supply-side strategy for the renewal of American capitalism.

THE STAGNATION PROBLEM

What might be thought of as constituting the logical starting point for all work on the problem of economic stagnation is a recognition of the fact that there is nothing natural or automatic about the fulfillment of a long-run rate of growth that guarantees full capacity production under advanced capitalism. As the conservative economist Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy* (1942): "The power of the business process itself to produce that result [full employment] has, however, been called into question by many economists. . . . We will refer to them by a term that has gained some currency, Stagnationists" (Schumpeter 1947:329).

In utilizing this label for all of those that had lost faith in the ability of "the business process itself" to generate full employment, Schumpeter had in mind such notable theorists as John Maynard Keynes and Alvin Hansen, Keynes's leading interpreter in the

United States (Schumpeter 1951:283–284). Faced with the Great Depression of the 1930s, Hansen's first reaction, like that of most liberal economists during the first eight years of stagnation (prior to 1937), was to trace the problem to such alleged supply-side causes as the high, inflexible wage rates that were thought to have been institutionalized in the economy during the New Era of the 1920s, and which supposedly prevented a smooth adjustment once the downturn had set in (Stoneman 1979:44–50; Foster 1983). But this initial interpretation, was to be summarily discarded in Hansen's case, as in numerous others, when the United States was suddenly struck by the sharp downturn of 1937, which occurred well before the economy had fully recovered from the conditions of depression, and which led to a rapid rise in unemployment from 14 percent in 1937 to 19 percent in 1938. Confronted with this failure of the economy to achieve a full recovery, and relying on the analytical framework introduced by Keynes, Hansen advanced, in such works as *Full Recovery or Stagnation?* (1938), the idea that the capital-rich society of the twentieth century was afflicted by growing difficulties in absorbing potential net savings. Not only was there a "rising propensity to save" among the wealthier elements; but it was also true that such previous inducements to "spontaneous" (as opposed to income-induced) investment as a rapid rate of population growth, a seemingly endless open frontier, and technological innovations of a heavily capital-absorbing character, all of which had underwritten nineteenth century industrialization in the United States, had either come to an end or could be expected to be of diminishing influence as stimulating forces in the foreseeable future.[1] All of which suggested that the economy was likely to move "sidewise" rather than forward if left entirely to its own devices (Hansen 1955:549).

In opposition to this perspective, Schumpeter, Hansen's greatest antagonist in the debate of the late 1930s, attributed stagnation — to the extent that it was something more than a "normal" downturn in the presumed 50 year Kondratieff cycle — not to any failure of capitalism's supposed natural tendency to generate full employment, but rather to the interference of anti-business interests, notably Roosevelt's New Deal (Schumpeter 1939:1011–1050; Magdoff and Sweezy 1987:31). It was only the intrusions of the state within the economic domain which, according to this view, kept a full recovery from taking place "of itself" (Schumpeter 1934:20).

The appearance of the Second World War in Europe and Asia and the rapid rise in United States war production, however, soon transformed the nature of the economic debate, with GNP rising by 70 percent in just six years in response to war-generated demand; and in the prosperity that greeted the United States in the aftermath of the war stagnation was for a time forgotten (Heilbroner 1980:160). It was not until the appearance of what the orthodox economist Paul Samuelson was to call "the Eisenhower stagnation" of 1954--60, following the Korean War, that the issue was temporarily raised again in a major way (Walker and Vatter 1986:325). Pointing then to the statement by Schumpeter quoted above, Hansen was to remark: "I fully accept Schumpeter's definition of stagnationists in *Capitalism, Socialism and Democracy*. . . I like this definition because it stresses in a precise way the essential issue which is as follows: Can the economy *automatically* produce full employment? Can *automatic* forces alone, under modern conditions, be relied upon to the degree that was possible in the expansionist nineteenth century"? (Hansen 1955:557). The answer was obviously "No"! "We can at no time facilely expect," Hansen had written in *Full Recovery or Stagnation?*, "that a recovery will just automatically complete itself. There is never any assurance that business will surely carry on to a full measure of prosperity. For 'carrying on' means that new investment shall be developed" (Hansen 1938:283).

At the root of the problem was the fact that in an advanced capitalist economy, characterized by a high savings potential and abundant productive capacity, investment tended to be cut off (as far as the normal income generation process was concerned) well before a full employment level of production was reached. For in the contradictory world of capitalism investment produces additional demand in the short-run but new productive capacity after just a few years. And under conditions of a widening underemployment gap (or overall slack demand) the danger to capital of finding itself with too much excess capacity often has the effect of shutting off potential net investment before it can actually be generated, creating a vicious circle of stagnation instead of the virtuous circle of rapid growth predicted in most textbooks. As the Marxist economist Michal Kalecki—often credited with having discovered the essentials of Keynes's *General Theory* before Keynes himself, in essays published in Poland — wrote in the closing sentences of his *Essays in the Theory of Economic Fluctuations* (1939), "The tragedy of investment is that it causes crisis because it is useful. Doubtless many people will consider this theory paradoxical. But it is not the theory which is paradoxical, but its subject — the capitalist economy" (Kalecki 1939:149).

Indeed, what was largely "paradoxical" from a liberal economic standpoint — which, insofar as it rested on neoclassical foundations, had little room for concepts of class or monopoly within its core analytical framework — could be much more easily comprehended by a Marxist theorist like Kalecki, who took as his starting point the class composition of both output and demand. Relying on the simple model of the capitalist economy embedded in Marx's reproduction schemes, Kalecki emphasized that the demand for capital goods is equal to reinvested gross profits, while the demand for wage goods (the great bulk of the consumption goods sector) equals total wages (workers' savings being considered so marginal as to be safely disregarded in the analysis).[2] Rapid accumulation requires a much faster growth in the former than in the latter, but this eventually generates inordinate productive capacity in relation to effective demand, as the gap between the capacity to produce and the capacity to consume widens — although the degree to which this contradiction actually surfaces depends on the relative autonomy of investment from final consumption characteristic of any particular phase of capitalist development (Kalecki 1968).

To elaborate the point somewhat differently, any continual plowing back of profits into new investment would mean that the means of production (Department 1 in the Marxian reproduction schemes, the demand for which comes largely out of gross profits) would expand very much faster than articles of consumption (or Department 2, the demand for which comes mainly from wages). This, in fact, is the basic pattern of every accumulation boom. But it is a self-annihilating process. Sooner or later (depending on historical conditions determining the degree to which the investment process is self-sustaining) the means of production are built up to such a prodigious extent that a social disproportionality develops been the capacity to produce and the corresponding demand. A crisis of overaccumulation rooted in overexploitation then occurs.

Under these circumstances, in which investment (or new capital formation) is inhibited by capital stock already in existence, capitalist expansion becomes increasingly dependent on what Hansen termed "spontaneous" or non-income induced sources of demand. Reversing the traditional assumption of rapid growth under capitalism, Kalecki contended—in a critique of the early Russian Marxist Michael Tugan-Baranovski, who had denied the existence of a problem of final demand— "that an expanded reproduction will take place if there exist factors that simply do not permit the system to remain in the state of simple reproduction [or stationary state]. . ." (Kalecki 1967:154). Or as he explained in his *Theory of Economic Dynamics:* "Our analysis shows. . . that long-run development is not inherent in the capitalist economy. Thus specific 'development factors' are required to sustain a long-run upward movement" (Kalecki 1965:161).

Hence, in the absence of "external" factors such as a clustering of technological innovations of a capital absorbing character, or massive government spending on a wartime scale, a well-developed capitalist economy was likely to sink into a pattern of slow growth and rising unemployment and excess capacity, with capital formation fluctuating around the level of zero net investment. Moreover, as a consequence of the steady rise in what Kalecki termed "the degree of monopoly" (reflected in widening profit margins and growing concentration and centralization of capital) "the retardation in the increase in capital and output" would tend to become more severe (Kalecki 1965:161).[3]

The argument with respect to the effect of growing monopolization on the accumulation process was to be carried forward by Josef Steindl, one of Kalecki's colleagues at the Oxford Institute of Statistics during the Second World War, whose major work on the subject was published in 1952 under the title *Maturity and Stagnation in American Capitalism.* For Steindl: "The decrease in the rate of growth of capital in the mature [monopolistic] economy and the concomitant decrease in the rate of profit tend to bring about a decline in the share of profits in incomes, and a decline in the share of capitalists' savings in profits" (Steindl 1976:1945). To account for this situation, the traditional Marxian conception of realization crisis (or a crisis associated with insufficient effective demand) needed a new interpretation, focusing in particular on the significance of excess capacity. Describing the essence of this new approach, first in Kaleckian and then in classical Marxist terms, he wrote:

> If we think of it, the tendency for the capitalists' share of the product to increase does, after all, exist *potentially.* It is a consequence of the growth of oligopoly. The expression of this tendency can only be an *increase in gross profit margins.* That means that the actual share of *net* incomes of capitalists need not increase at all. The increased gross margins may be compensated by a reduced degree of utilization so that there is not a shift of actual income from wages to profits, but a shift of potential income of workers to wastage in excess capacity.
>
> This could be very easily represented in Marxist terms. We should have to say that as a consequence of the rise of oligopoly, the rate of *surplus value produced* tends to increase: the rate of exploitation rises. But as Marx explained, producing surplus value does not necessarily mean realising it, and the realisation depends on the existence of a sufficient market. We should now say that surplus value can be realised only to the extent to which there is a corresponding amount of investment and capitalists' consumption. If this amount does not increase, then the rise in the rate of surplus value *produced* will not lead to any increase in surplus value *realised,* but only to excess capacity" (Steindl 1976:245).

As Steindl went on to remark, the "gross profit margin," or the mark-up on cost price in Kaleckian theory, might be "tentatively" identified with "surplus value produced"

(Steindl 1976:245-246). The theory then states that although the rate of surplus value, and the value rate of profit at the level of production, are increasing, net realized profit rates may actually be stagnant (or even in decline, along with investment), as reflected in rising amounts of excess capacity. Moreover, the logic of the argument is such that it is precisely because monopoly capital seeks to maintain its high gross margins (and excessive rates of surplus value), in the face of downturns in demand, by reducing its utilization rate rather than its prices, that a chronic condition of secular stagnation emerges, since the degree of capacity utilization is itself the main determinant of investment demand. At one and the same time monopoly capital promotes excess capacity in order to maintain its gross profit margins (rate of surplus value), and demonstrates an enormous "fear" of additional, unplanned excess capacity—causing it to cut back on the level of investment whenever the operating rate falls below a certain point.[4] With the resulting stagnation of normal investment demand, a widening under-employment gap becomes a characteristic feature of the modern economy.

The radical implications of Steindl's book, together with the fact that it appeared in the middle of the Korean War boom, virtually guaranteed that his work would be ignored by mainstream economists the vast majority of whom — although momentarily dismayed by the cyclical downturn of the Eisenhower years — were eager to stand at the forefront of what the rebellious sociologist C. Wright Mills was to dub, "The Great American Celebration."[5] "The ghost of Thomas Carlyle," Paul Samuelson wrote in 1964, "should be relieved to know that economics, after all, has not been a dismal science. It has been the cheerful, but impatient science of growth" (Samuelson 1964:730).

It was in this overall climate of Cold War elation that Paul Baran and Paul Sweezy, inspired by the contributions of Kalecki and Steindl (as well as Marx, Veblen, Keynes and Hansen), began to collaborate on a study — published in 1966, two years after Baran's death, under the title *Monopoly Capital* — designed to demonstrate that stagnation was still the main specter haunting the United States economy. According to this theory, Marx's "law of the tendency of the rate of profit to fall" associated with accumulation in the nineteenth century era of free competition, had been replaced, with the emergence of the more restrictive competitive environment of monopoly capitalism at the beginning of the twentieth century, by a "law of the tendency of the surplus to rise" (defining surplus as "the gap, at any given level of production, between output and socially necessary costs of production").[6] Under these circumstances, the critical economic problem became one of surplus absorption. "In general," the authors pointed out, "surplus can be absorbed in three ways: (1) it can be consumed, (2) it can be invested, and (3) it can be wasted" (Baran and Sweezy 1966:79). Capitalist consumption, however, represented a declining proportion of capitalist demand as income grew; which meant that "the investment-seeking share of surplus" tended to rise. But investment itself was hindered by the fact that it created new productive capacity, which could not be expanded for long periods of time without a proportional expansion in final, wage-based demand. And although there was always some possibility of new "epoch-making innovations" arising that could help propel investment forward, all such innovations — resembling the steam engine, the railroad and the automobile in their overall effect — were few and far between. Nor was a vigorous public works campaign (that is a massive program of state employment in the areas of productive consumption and investment) likely to arise to alleviate the problem as long as the logic of the system held sway. Since to think otherwise was to deny the modalities of political power in an advanced capitalist society, where vested interests within the ruling class tended to block any state activities that competed with or diminished the role of the market. Hence, Baran and Sweezy concluded that the system had a powerful tendency to stagnation, largely counteracted thus far through the promotion of economic waste by means of ''the sales effort'' (including its penetration into the production process) and military expenditures, and through the expansion of the financial sector. All such ''protective reactions of the system'' were, however, subject to a kind of law of diminishing returns, and could be expected to lead to a doubling-over of contradictions in the not too distant future (Baran and Sweezy 1966:72, 79; Sweezy 1972:42; Magdoff and Sweezy 1981:182; Foster 1986: 221–224).

The changes wrought in the nature and logic of the system, according to Baran and Sweezy's analysis, occurred at the secondary level of the competition of capitals and the distribution of surplus product, and did not alter the more fundamental tendencies within the system uncovered by Marx, connected with the production of surplus value and the growing predominance of its relative form (that is the shift to ever more intensive forms of production). In fact, the growth of Taylorism or scientific management in the early decades of the twentieth century — the theoretical basis of which, as Harry Braverman demonstrated in *Labor and Monopoly Capital* (1974), was already provided by Marx's analysis of the labor process in Volume I of *Capital* — was viewed, from the standpoint of the overall monopoly capital argument, as the key element in a complex historical transition. Indeed, it was the shift to ever greater cost-cutting at the point of production, together with the effectual banning of price competition in concentrated industries, which both raised the rate of surplus value and ''skewed its distribution toward the larger units of capital'' — thereby generating the chronic pattern of realization crisis (or widening effective demand gap) that has characterized the modern era (Sweezy 1981:63–65, 68–70, 1987:15–16; Foster 1984a:65--67).

THE REGIME OF CAPITAL

The distinctive characteristics of the foregoing perspective can be brought out more clearly by taking a short detour and making a number of comparisons with recent fashionable trends emanating from French political economy. Like radical stagnation theorists, writers in the new French ''regulation school'' derive many of their insights from the ''realization crisis'' strand of Marxian political economy; and therefore emphasize the constraints placed on the selling of commodities, and on the realization of the surplus value (or profits) embodied in these commodities, due to the limits of effective demand. The central categories of this school of thought find their clearest expression in the work of Alain Lipietz, who has written in his book *Mirages and Miracles* (1987) that:

> One of the great contradictions of this mode of production relates to its 'commodity' side. Although capitalists can organize production in their factories down to the last detail and can, given their habits and their calculations, establish there an 'iron law of proportionality,' in their dealings with the rest of society they behave like any other gambler: their products may or may not find a buyer at a price which makes production profitable (this is the famous realization problem). Yet it works . . . except, of course, when there is a crisis. In order to understand how it works we have to produce new concepts. A number of French research workers have proposed the concepts of *'regime of accumulation'* and *'mode of regulation'* (Lipietz 1987:14).

The first of these concepts is nothing other than Marx's reproduction schemes (the input-output or departmental matrix established by the class composition of social output and demand) placed in a very long-run institutional context. Or as Lipietz himself explains it: "A regime of accumulation can be defined in terms of a *schema of reproduction* which describes how social labor is allocated over a period of time and how products are distributed between different departments of production [that is, the capital goods department and the consumption goods department] over the same period" (Lipietz 1987:32–33).

In terms of historical stages, the regulation school contends that two broad "regimes of accumulation" can be distinguished, corresponding generally to the traditional Marxist stages of competitive and monopoly capitalism, but defined in terms of the predominance in the first of extensive reproduction geared to the building-up of the means of production, and in the second of intensive reproduction dependent on the growth of mass consumption (Lipietz 1987:33).

Moreover, to understand how a particular regime of accumulation is actually "realized" in any particular phase of history it is necessary, according to this perspective, to introduce the secondary and more concrete category of a "mode of regulation," consisting of "institutional forms, procedures and habits." The mode of regulation that "reproduced" the extensive regime of the nineteenth century is labeled "competitive regulation," and "was characterized. . . by price movements that were highly responsive to demand." In contrast, the mode of regulation that was eventually to uphold the intensive regime of accumulation — once the Great Depression made it clear that competitive regulation was no longer adequate for the realization of the system at this stage — is referred to by Lipietz as "monopolistic regulation." This "new *'monopolistic'* mode of regulation," he contends, "incorporated both productivity rises and the corresponding rise in popular consumption into the determination of wages and nominal prices *a priori*. . . . [T]his regime is now known as 'Fordism' " (Lipietz 1987:34–36). The present crisis is then a crisis of "Fordism," or of a mode of regulation that relies on high wages and mass consumption, underwritten by high productivity.

Despite the occasional insights that it provides, this approach, when viewed from the quite different perspective of stagnation theory, has at least one very serious and perhaps fatal shortcoming. What appears to be missing is any concrete consideration of the problem of investment or capital accumulation as such. Indeed, the entire emphasis of the theory, insofar as it focuses on the so-called "Fordist" dynamic, is rather on consumption; and instead of tracing the problem of expanded reproduction to the tendency of investment to stagnate (due to overexploitation, overcapacity, and the lack of external stimuli like new capital-absorbing technologies and markets), the failures of the system in the present stage are thought to be reducible to the limits of "overconsumption" (Davis 1986:206–221). But as Kalecki said: "The workers spend what they get; the capitalists get what they spend" (Robinson 1966:ix). Thus, the realization problem has to be seen mainly in relation to problems associated with investment out of profits rather than wage-based consumption. Without a clear understanding of the historical problem of investment — which in the monopoly capitalist era cannot simply be seen as a reflex of movements in the profit rate — what remains is a largely impressionistic account of the evolution of the system that dresses up, but does not otherwise significantly alter, the ruling class' own interpretation. Nothing therefore is easier for Lipietz than simply to infer, in conformity with the dominant supply-side ideology, that, ''the present crisis in intensive accumulation is a crisis in *profitability,* whereas the crisis of the 1930s was a crisis of overproduction'' (Lipietz 1987:43). Or as he has stated elsewhere: ''I agree with Weisskopf, Bowles and Gordon [1985] that the present crisis occurred because the capitalist class was 'too weak' rather than 'too strong' '' (Lipietz 1986:13).[7]

From the standpoint of stagnation theory, such an assessment is of course wrong. Thus, among the numerous conceptual errors associated with this kind of supply-side interpretation of the present crisis (shared by the regulation school and profit squeeze theorists alike), the following are particularly notable: (1) the confusion of *ex post* wage and profit shares in national income accounts with the *ex ante* rate of exploitation at the level of production; (2) the pretense that aggregate productivity statistics for the whole economy are concrete indicators of conditions on the factory floor, without regard to such factors as the utilization of capital stock; and (3) the failure to adopt a theoretical framework that distinguishes between productive and unproductive labor (and between profits and surplus value) (see Foster 1984a:68–70; Szymanski 1984).

Still, all of the foregoing is less important than the fact that this type of assessment simply misses the point. For the secular tendencies of advanced monopoly capitalism in the United States cannot be concretely accounted for by a purported ''overconsumption'' and underexploitation squeeze on profits — even when an ill-defined long cycle is brought in to bolster the argument — but only in terms of the long-run stagnation of investment resulting from the constant tendency of the system to produce a relative overaccumulation of capital. As long as the laws of motion of monopoly capitalism remain supreme, there will be a tendency to generate a larger ''investment-seeking surplus'' at a full employment level of output than the system can profitably absorb. Hence, there is no escaping the fact that the inner logic of capitalism promotes the kind of disproportionalities associated with a capitalist class that is ''too strong'' and a working class that is ''too weak.'' ''The very necessity of *general political action,*'' Marx once observed, ''affords the proof that in its merely economic action capital is the stronger side'' (Marx 1935:59).

THE END OF PROSPERITY

The reasons for the extraordinary rise and fall of the economic prosperity that characterized the immediate post-Second World War period, cannot therefore be found in any simple phenomenon of ''Fordist overconsumption'' (or Keynesian ''overemployment'' and ''underexploitation''). Rather, it is necessary to take a closer look at the historical conditions affecting long-term capital formation, in a system where the ruling class, in its purely economic action, is ultimately the stronger side.

The factors or combination of factors that in the course of capitalist history have usually been associated with long waves of sustained growth have generally consisted of: (1) the generation and adoption of epoch-making innovations that induce heavy capital investment, new forms of infrastructural development, the spread of population into new locations, etc.; (2) expansion of military spending in preparation for war; (3) the rebuilding of the industrial base in the aftermath of war; (4) a period of relatively smooth expansion of the credit and debt structure (normally preceded by earlier debt-deflations — that is massive depreciation of financial assets); (5) the dominance of a single hegemonic power within the world capitalist economy; and (6) development of new markets in the periphery of the world economy (Magdoff 1982:3).

Such conditions allow for the absorption of surplus to a degree that is, in the longer run, unsustainable. Each of these factors came into play to some extent in the long wave expansion of the immediate post-Second World War era. The 1950s saw the second great wave in the automobilization of America, which has to be understood as including the building of the interstate highway system, as well as the expansion of the auto, glass, rubber and steel industries; the conditions of which were partly provided by the enormous growth of consumer liquidity that had accumulated during the war, allowing for a vast growth in the consumer credit system. Ever greedy for customers, the automobile industry became the model for a pattern of expansion based on a constantly augmented "sales effort," in which the costs of selling goods became inextricably connected with the costs of production. Other technologies originally generated by war demand such as the jet aircraft also created new markets for investment. The rebuilding of the war-torn economies of Europe and Japan, which received an enormous boost from the remilitarization of the United States economy in connection with the Korean War, as well as from the the extension of the mass use of automobiles to these countries, boosted the overall expansion. The two regional wars fought by the United States in Korea and Indochina produced record peaks in the economy in those years, as well as the longest business cycle expansion (106 months) from February 1961 to December 1969 that the twentieth century United States economy has experienced. The same years also saw a steady building up of the financial sector of the economy (banks, other financial institutions, real estate and insurance), which rose as a percent of goods production from 21 percent in 1950 to 33 percent in 1970 and 40 percent in 1985 (Magdoff and Sweezy 1987: 23). The rise of the United States to a position of hegemony in the world capitalist economy was accompanied by a straddling of the globe by United States military bases, a flow of economic aid to Europe through the Marshall Plan, and the sending of aid subsequently to client states throughout the world. The trade and monetary regimes associated with the General Agreement of Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank — all backed up by United States hegemony — resulted in a much freer circulation of capital around the globe, as well as the setting up of rules for disciplining Third World states. Multinational corporations — constituting increasingly important mechanisms of imperialism — soon girded the globe (Magdoff 1982:3-5).

What is important to understand is that all of these factors were either self-limiting in character, or could be expected to result in the doubling-over of economic contradictions in the not too distant future (or sometimes both). The wave of automobilization, as well as the demand associated with the spread of the commercial aircraft industry, had essentially petered out by the mid-1960s, entering a phase of simple reproduction. American ingenuity in building sales costs and other unproductive (or unreproductive) expenditures into the price of vehicles and other products, undoubtedly made United States companies more vulnerable over the long run to foreign competition. The rebuilding of the war-devastated economies in Europe and Japan was eventually completed, resulting in a slowing down in the growth rate of these countries. The use of American military power to combat revolutions around the globe came up against the reality of what Gabriel Kolko has called "the perpetual crisis of American foreign policy" and the inevitable defeat in Vietnam (Kolko 1984:348–398). Concentration of the economy on military output was to be of diminishing effectiveness in terms of its employment effects due to the high technology character of such spending; resulted in a prohibitive growth in the federal deficit; and increasingly appeared to carry long-term costs associated with the structuring of output toward non-reproductive luxury goods (Baran and Sweezy 1966:213–217; Foster 1984b:339–345). The growth of the debt economy resulted in added fragility in an economy increasingly characterized by stagflation (stagnation plus inflation), credit crunches, rising interest rates, and a growing federal deficit. The revival of competitor nations in Europe and Japan, as well as the expansion of productive capacity in certain key Third World countries, undermined United States hegemony and weakened the world economy, as international surplus capacity emerged in industry after industry. The spread of multinational corporations resulted in a greater concentration of surplus in the core states and undermined employment in those states. The hypertrophy of the world financial structure — not unrelated to the spread of multinational banking — meanwhile created a global debt crisis that threatened to destabilize both core and periphery.

Some theorists, confronted with this decline in the secular growth trend of the advanced capitalist economies since the mid- or late-1960s, have argued, following Schumpeter and others, that it is nothing more than the down phase in a 50 year Kondratieff cycle, that will be automatically succeeded by a 25 year expansionary phase beginning "in about 1990" (Wallerstein 1982:40). Yet, while the existence of long *waves* in a general sense cannot be denied, the existence of long *cycles,* in the sense that they generate, like other business cycles, their own "forces of reversal" has never been demonstrated. More specifically, while long wave expansions are based on *self-limiting* factors that spur investment and allow it to overcome powerful tendencies toward stagnation *for a time,* there is nothing in the nature of a long wave downturn that will *automatically* generate an upturn in the secular trend. As Paul Sweezy has written: "It was the Second World War that brought the stagnation of the 1930s to an end. We still do not know what will bring the stagnation of the 1970s and 1980s to an end — or what kind of end it will be" (Magdoff and Sweezy 1987:37–38).

THE SCOURGE OF SUPPLY-SIDE THEORY

It is an all but settled maxim of the dominant economic policy makers today that the current weakness of the United States economy can be attributed to supply-side factors: mainly high wages, low labor productivity, and excessive state spending. The solution, which the Reagan Administration has religiously followed, is to break unions, increase unemployment, force down wages, cut back on state spending that benefits those at the bottom of society, and reform the tax system to redistribute income from the poor to the rich. The result has been continued stagnation, with unemployment averaging almost 7 percent and capacity utilization standing at about 79 percent in 1986, 4 years into the recovery phase of the business cycle.

The gap between prevailing economic wisdom and concrete reality is nowhere more apparent than at the point of production. One of the most frequently heard justifications for what Lord Nicholas Kaldor has called "the scourge" of monetarist and supply-side economics has to do with the alleged decline in productivity on the factory floor (Kaldor 1986:64–70). But as liberal economist Lester Thurow of the Massachusetts Institute of Technology points out:

> If. . . one looks carefully at the .5 percent per year rate of growth of nonfarm business productivity between 1978 and 1985, one discovers some interesting facts. During those years American business firms reduced their blue-collar payrolls by 1.9 million workers, or 6

> percent, while increasing the business G.N.P. by 18 percent [after correction for inflation]. If one produces 18 percent more while reducing inputs by 6 percent, one has achieved a 24 percent increase in productivity. Divide that number by seven years; the calculation shows that the blue-collar workers of America on the factory floor were generating a rate of growth of productivity in excess of 3 percent per year — world class (Thurow 1986:26).

Indeed, insofar as there is "a problem" in generating a high rate of productivity, it lies not at the point of production, but in the proliferation of unproductive employment (white collar positions devoted to management, sales and finance, and the growth of the service sector) and the rise of excess capacity itself (which depresses productivity as overhead costs rise as a proportion of total output). Such facts should warn one of the dangers of uncritically accepting the supply-side case despite its omnipresence in policy circles. They also suggest that the main contradictions of monopoly capitalism lie not on the cost or supply-side but in the utilization of potential surplus product.[8] Indeed, the countervailing factors that in the past have helped to stabilize "the regime of accumulation" — factors like a growing "sales effort," inflation, deficits, financial expansion, ever greater reliance on military spending, etc. — are increasingly associated with a doubling-over of economic contradictions and the emergence of a society that is more and more irrational, when judged in terms of either demand *or* supply (Wolff 1987).

In any case: "From the social point of view, the central problem is not cutting costs or raising productivity, but how and where to allocate resources in order to eliminate poverty and to improve the quality of life on the job and at home" (Magdoff and Sweezy 1981:177). Socialists need to struggle against the scourge of supply-side theory not because it is bad economics — which it undoubtedly is — but because it conflicts with basic social needs that can be met only in a transformed social order.

NOTES

1. It is worth noting in this connection that somewhere between 40 and 50 percent of all private capital formation in the United States in the last two decades of the nineteenth century may have been accounted for by the railroad alone (Baran and Sweezy 1966:221).
2. Aside from the fact that workers are often by necessity long-term dis-savers, Kalecki's assumption (based on Marx) that workers' savings are nonexistent, is more than reasonable in this context, since any marginal savings out of wages would only make the realization problem worse, while not otherwise altering the general case. For a portrayal of "the class composition of social output and demand" embodied in Marx's reproduction schemes, see the input-output table for simple reproduction provided in Foster (1984b:340–342).
3. The significance attributed to the increasing concentration and centralization of capital by such theorists as Kalecki, Josef Steindl, Paul Baran and Paul Sweezy, has been subjected to harsh criticism by numerous liberal and even some left-wing analysts. Thus in a recent critique of this perspective (directed in particular at the late Al Szymanski) Samuel Bowles, David Gordon and Thomas Weisskopf use data from Table 896 of the *Statistical Abstract of the United States 1982–83*, to argue that "one does not find much of an increase" in the percentage share of manufacturing assets owned by the 100 largest manufacturing firms between 1960, when the figure is 46.4 percent, and 1980, when it is 46.7 percent. However, what these authors do not tell their readers, is that the second line of the Table shows a *sizable increase* in the percentage share of manufacturing assets held by the 200 largest manufacturing firms from 56.3 percent in 1960 to 59.7 percent in 1980 (and 60 percent in 1981) (see Weisskopf, Bowles and Gordon 1985:268; Szymanski 1984).

4. "Studies have shown that capital spending plans accelerate when operating [capacity utilization] rates move significantly above the 80 percent level and decelerate when they dip below it" (*Business Week,* August 3, 1981:12). For data and analysis on capacity utilization and business investment in the United States economy from 1920 to 1975 see Foster (1984c).
5. The one mainstream theorist who stood as an exception to this general failure to acknowledge the importance of Steindl's book was Alvin Hansen. As he summarized the main thrust of Steindl's argument: "The trend toward oligopoly raised profit margins. This development tended to produce excess capacity. Excess capacity — a decline in the rate of utilization of capital stock — led to a falling off in the rate of growth of capital. This is the essence of stagnation as Steindl sees it" (Hansen 1955:550).
6. For works by theorists who give a central place to "the law of the tendency of the rate of profit to fall" even under the conditions of advanced capitalism, see the essays by David Laibman and Anwar Shaikh in this volume.
7. For the views of Samuel Bowles, David Gordon and Thomas Weisskopf see their essay in this volume.
8. Data compiled by Peter Bernstein (1983: 24) shows a significant upward drift in the capacity/capital stock ratio in manufacturing from 1948 to the mid-1970s, suggesting that a shift to capital-saving innovations (as Hansen once contended) is a major factor in the reemergence of stagnation in the 1970s and 1980s.