4. Splendor and Misery of the Mixed Economy

The second global economic crisis of this century was transformed due to the provocation of imperialist competition, into the First World War. To the usual devaluation of capital by crisis, combined with its concentration and centralization, was now added the physical destruction of means of production and labor power. Connected to this was a shift in the balance of economic power from the European nations to the United States. America became the greatest exporting and creditor nation in the world. The territorial changes brought about by the war, the removal of Russia from the world economy, the capitalist reparations policy, the breakdown of currencies and the world market-all this made the reconstruction much more difficult than it would have been in the case of a "purely economic" crisis. The revival of the European economies proceeded so slowly that with the exception of America, the Crisis that had turned into the First World War extended through it into the Second World War. America's special situation was thus a limited privilege, which came to an end in 1929. The American economic collapse drove the world economy into a general decline. Capital had indeed made an effort, in the form of American loans, large-scale cartellization, rationalization of production, and inflation, to escape the crisis, but without success. To look only at the poorest and the richest capitalist countries of that time, we note that between 1929 and 1932 industrial production in Germany fell by around 50 percent, while the unemployed numbered seven million, and the national income fell from 73.4 to 42.5 billion marks. In America around 1932 the national income had also fallen by about half, from $87.5 to $41.7 billion, and the sixteen million unemployed reflected the 50 percent contraction of industrial production. A world economic crisis of this extent went beyond all previous experience and could not, like the first postwar crisis, be ascribed to the circumstance of the war.

The partisans of Marx's crisis theory, of all shades, saw in the persistent crisis the confirmation of their critique of capital, and they looked for an overcoming of the crisis either in reform of the system or in its overthrow. The static theory of general equilibrium was unable to explain the crisis, as the postulated equilibrating tendencies refused to work. And because the various governments of the capitalist nations relied, at first, on the deflationary crisis mechanism to solve the problem and did not interfere in the economic process, the deepening of the depression could not be blamed on erroneous government policies. There was nothing left to blame for the crisis but the

workers' unwillingness to accept lower wages. The persistence of the crisis and the constantly increasing unemployment, however, finally impelled the bourgeois economists to a revision of their theory, which has taken its place in history as the "Keynesian Revolution."

Without opposing neo-classical theory in general, Keynes recognised the evident fact that the traditional theory was not in accord with the actual situation. The full employment assumed by the theory appeared to him now as a possible but not necessary Presupposition of economic equilibrium. Say's thesis, that supply and demand must always coincide, was now, a hundred years later recognized as erroneous, since "savings" do not necessarily lead to new investments. In Keynes's view, while production must serve consumption, the latter decreases with the increasing satisfaction of needs, so that the extension of production must decrease and with it the labor market. Thus in mature capitalist society new investments would be always less and less profitable, even in the case of a radical reduction of wages. And while it is true that low wages yield high profits, so inducing new investments, it is nevertheless not only wrong but dangerous to leave the economy at the mercy of the economic course of events, in view of the difficulties that stand in the way of such wage decreases and of the inevitable long-run decline of the rate of accumulation. The depression therefore must, according to Keynes, be combated with a policy of state stimulation of expansion, based at once oil an inflationary monetary policy and on public works paid for by the public debt.

Although Keynes tried to explain the cyclical movement of capital as due to the changing profitability of capital, he really developed no theory of crisis. According to him it was the declining propensity to consume that reduced the rate of accumulation and induced the capitalists to stop transforming their money into capital. Were they to continue to invest, it would be only to earn a declining rate of profit, which would find its lower limit in the given rate of interest. In order to escape the depression, it would be necessary to add new anti-crisis measures to the familiar ones. Wages would have to be cut by means of inflation, the profit rate supported by lowering the interest rate, and the remaining unemployment absorbed by public works, until these measures produced the beginning of a new prosperity, at which point the economy could be left once again to the automatic mechanism of the market. Since Keynes was essentially concerned with the overcoming of the crisis of his day, the long-term developmental tendency described by his theory remained only a philosophical ornament, which drew no great interest at the time. This theory remained on the terrain of static equilibrium and was therefore unable to come to terms with the dynamic of the system.

The Keynesian theory was necessarily restricted to the national economy rather than to the capitalist world economy, as the state interventions it called for could be applied

only in a national framework. Of course, it included the hope that the increase in production in individual countries would favorably influence world trade, so that international competition would become less fierce. The measures required to counter unemployment compelled a return to classical macroeconomics, which investigated society as a whole in its economic aggregates, in contrast to micro-economics- then almost the only kind of economics cultivated which concerned itself only with the fragmentary analysis of isolated economic processes. Whatever practical proposals were made, of course, hardly represented new discoveries but rather the re-employment of expedients that had been relegated to the background during the flowering of laissez faire. Despite an enormous flow of technical economic neologisms, the pretensions of the "new economics" clothed only the ordinary capitalistic principle of increasing profits by means of governmental interventions in market relations.

The need for state intervention dictated by the crisis soon became, in the hands of the economic theorists, a virtual principle of economic management. The traditionally dominant view that all public expenditures have an unproductive character was now seen as an error, and it was asserted that public spending has the same beneficial effect on production and income as private investments. According to Alvin Hansen,

> The development of a public park, swimming pool, playground, or concert hall makes possible a flow of real income no less than the erection of a radio factory... . [P]ublic expenditures may also be... income-creating in the sense that they tend currently to expand income and employment.... [W]ars not only promote employment during the emergency, but may stimulate postwar private investment by creating accumulated shortages in housing and other investment areas... . Indeed, when private business outlays decline, the government alone is in a position to go forward and sustain the income through increased expenditures.

Since the economists do not distinguish between economy in general and the capitalist economy, it is impossible for them to see that "productive" and "capitalistically productive" means two different things and that public, like private investments are capitalistically productive only if they create surplus value not because they supply material goods or amenities.

Contemporary economists imagine that both private capital and the government contribute to the national income, as both draw from the great "stream" of income. Although the government's contribution depends on taxes and borrowing, the debt service that goes with this is supposed to be paid out of the increased national income achieved through public works. Inflationary consequences were held to pose no danger so long as the increasing money supply could be balanced by an equal increase of production and real income. In order to demonstrate this, economists appealed to a so-called "acceleration principle" and to a "multiplier effect," or to a combination of the

two, whose operation could be established mathematically on the basis of certain imagined assumptions. Whether these "principles" yield the same or similar results in reality can of course not be proven due to the empirical complexity of economic processes. But even theoretically nothing follows from them but the obvious insight that like all other spending, state expenditure also can lead to further private expenditure, so that the total new purchasing power is higher than that contributed by the original state expenditure.

Alvin Hansen denied that his theory could be included under the ordinary rubric of underconsumption theories. In his view crisis resulted not from insufficient demand for consumer goods but from spontaneously originating over-investment. As the dynamic of the system drives the production of means of production forward faster than social consumption, the rise in consumption must be raised to a dominant principle of the system if overproduction is to be avoided. In modern capitalist society investments are no longer determined by consumption, according to Hansen, so that the cycle theories of the classical and neo-classical economists, with their supply-demand equilibrium, are in conflict with the actual facts. Consumption is now a function of accumulation, as a result of which the crisis cycle is an inevitable result of capitalist expansion. In order to eliminate unemployment and overproduction, *public consumption* must be increased by means of public spending to produce a kind of mixed economy in which the price relations are so integrated with monetary and fiscal measures that the economy can continue to develop.

This "revolution" in theoretical economics had already been preceded by a matching practice born of necessity. It took different forms in different countries. While, for example, in the United States unemployment relief paid out of public funds, counter-acted a noticeable radicalization of the working population, the make-work program in Germany had the form of rearmament in order to undo the results of the First World War and overcome the crisis imperialistically at the expense of other nations. Thus the integration of the market economy with state economic management served, on the one hand, the defense of the political status quo and, on the other, the attempt to disrupt it. The general crisis situation and the conflicting capitalist interests mixed the fight against the crisis with a series of imperialist adventures and social conflicts, which more or less affected all countries and finally resulted in the Second World War, which powerfully advanced the integration of state and economy. The fully developed mixed economy began in the form of a war economy that put an end to the apparently permanent state of crisis through the destruction of unbelievable quantities of capital value and the mutual extermination of the producers.

Only after the war did the "new economics" become the ideology of the ruling classes, when state involvement in the economy could not be eliminated in the chaos of the

postwar period. With the exception of America, the world, in the eyes of the bourgeoisie, had been utterly shattered and required political and military intervention if total anarchy was to be avoided. The economic functions of the state, evolved in the course of war and crisis, could be altered but not eliminated. The confrontation that immediately broke out between the victorious powers over the division of the spoils of war and the creation of new spheres of influence gave the governmental institutions yet greater influence on economic affairs. The newly established borders had to be secured and the capitalist world economy put on the road to reconstruction with the help of the state. An increasing part of social production was devoted to these ends, and the state budgets continued to swell thanks to taxation and borrowing.

The idea that "mature" capitalism is inevitably doomed to stagnation and increasing unemployment, which can be overcome only by public expenditure, remained a leitmotif of the "new economics." The fact of full employment during the war was held to be sufficient proof that state interventions could have the same results under all conditions and that the state-integrated economy could end the crisis cycle and make possible an unbroken expansion of the economy. The incorporation of economic growth into economic analysis necessitated the construction of a dynamic the-Tory that could be adjoined to the static equilibrium theory. Among others, R. F. Harrod and E. D. Domar attempted to provide theoretical proof of the possibility of an equilibrium economic growth rate by a dynamization of the Keynesian model of income determination, together with the accelerator and multiplier principles.

This equilibrium growth rate was supposed to be determined, on the one hand, by the propensity to save and, on the other, by the capital required and the returns from it. Growth, however, would mean the departure from an equilibrium state; once embarked upon, growth would tend to continue autonomously in the same direction and thus to become always more unstable. Since new investments have two sides, increasing incomes and productive capacity – the first representing demand and the second supply – a growth rate guaranteeing economic stability must harmonise the increasing productive capacity with the increasing demand. For this to be possible, it is not sufficient to achieve an equilibrium of savings and investment, but investments must exceed savings if unemployment is to be avoided. As a result, economic growth, while a means of fighting unemployment, becomes a source of new unemployment as soon as growth leaves the path of equilibrated development.

If the static equilibrium is already recognised to be an illusion, a balanced rate of development is even less credible. But what an autonomous process of growth cannot achieve may be accomplished by its conscious direction! The economy and its development can, according to Paul Samuelson, be compared to "an unmanned bicycle, which is unstable if disturbed from the vertical" but "can be converted into a stable

system by a steadying and compensating human hand." In the same way "a Harrod-Domar growth path that would be unstable under laissez-faire [can] be made stable by compensating monetary and fiscal policies in a mixed economy. And "although nothing is impossible in an inexact science like economics," at the present day "the probability of a great depression – a prolonged, cumulative, and chronic slump like that of the 1930s, the 1890s, or the 1870s – has been reduced to a negligible figure."

This confidence appeared to be justified by the facts of economic development and had in addition the "merit of having proved that among other possibilities of development, that of growth without disturbances of equilibrium also exists, something which was earlier contested by various investigators (including Marx, with his breakdown theory)."In this way the question of the dynamic of capitalism was expounded in a manner satisfactory to bourgeois economics, without abandoning the equilibrium approach, and was developed in the neo-neoclassical theory, in which static and dynamic analysis were united.

The various growth theories, however, were less concerned with the economic processes of the developed countries than with the question, raised by the outcome of the Second World War, of the capitalist development of the underdeveloped nations. Of course, this question could be answered quickly and easily, though the realization of the proposal contained in these answers namely, to repeat the process already completed in the developed countries, ran into insurmountable difficulties. Nevertheless, concern with underdevelopment opened up a new branch of theoretical economics that sought to explain the success of the mixed economy to the whole world and recommend it for imitation. As this evolutionary theory of development, however, has nothing to do with the problem of crisis, we can neglect it here.

From the standpoint of Marx's crisis theory, the prosperity which began, with some delay, after the war is not surprising, since it is the function of crisis to lay the groundwork for a new upswing. This is not to say that every crisis can introduce a new period of accumulation; it may lead also only to a situation of relative stagnation, as was the case in many countries after the First World War, and thence to a new crisis. With the growing destructive powers of capital, war as crisis becomes an obstacle to rapid recovery and can only slowly give way to a new expansion. Under these circumstances it is necessary to continue state intervention in the economy, and this in fact appears to be an essential instrument of the new upswing.

If the stagnation of the capitalist economy leads to state intervention in order to restart the economy and conquer unemployment, it does not follow that these interventions are to be thanked for the new prosperity that finally arises. It may be due instead to the restoration of the profitability of capital, achieved at the same time as,

but relatively independently of these interventions, as in earlier crises, in which the state's deflationary policy aggravated rather than attenuated the crisis. The reduction of the state budget failed as a means to improve the profitability of capital, and likewise an increase in public works does not guarantee a solution to the crisis. In both cases the continuation of accumulation depends in the final analysis on transformation of the capital structure and a rate of surplus value that can valorize the expanding capital. Without a doubt the expansion of capitalist production after the Second World War can be explained only by the still unbroken, or restored, expansive power of capital, and not by the effect of state-induced production. But if this is true, a new over-accumulation crisis is certain, and with it the necessity of further state intervention.

From the standpoint of the "new economics," however, a sufficient autonomous expansion of capital could no longer be counted on, so that continuing capitalist development was thinkable only in the form of the mixed economy. A skeptical minority of economists remained true to the principle of laissez faire and saw the mixed economy as the pure and simple destruction of the market economy, which must lead in the end to the collapse of private capitalism. The sustained prosperity in the Western countries, which could not be simply explained as the result of state interventions, pushed the Keynesian conceptions into the background, and in the academic world microeconomics again took the dominant place. Governmental involvement in the economy was considered not only superfluous but as obstructing the free movement of capital, and it was thus seen as a hindrance to development. Of course, this new capitalist self-confidence was rooted in the prevailing prosperity; and just as the "new economics" could not completely vanquish the laissez-faire doctrine, the latter was not able to compel the "new economics" to retreat purely because of the fact of prosperity. The mixed economy had already become the unalterable form of modern capitalism, although the mix itself could be altered. State interventions could be increased or decreased to meet the changing needs of the yet uncontrolled development of the economy.

The expansion of Western capital was unexpectedly rapid and durable. Economic downturns were of such brief duration as to inspire the replacement of the concept of "depression" by that of "recession," and the share of state-induced production increased more slowly than production as a whole. This affected not only the tenor of Keynesian theory but also Marxist views, leading in the end to various new revisions of Marx's theory of capital a crisis. Drawing nearly universally on the Keynesian theory of sufficient demand as the cause of stagnation, a series of author represented the position that capitalism's difficulties arise no from a shortage of surplus value but from an excess of it. Structural transformations favorable to capital production such as the cheapening of constant capital due to modern technology and the arbitrary

manipulation of prices that accompanies monopolization were held to result in the production of more surplus value than could possibly be accumulated, and which could be spent only by way of public expenditures. As the capitalist mode of production rules out an improvement in the working population's standard of living proportional to the rising capacity to produce, the economy fluctuates between stagnation and overcoming it through a policy of waste in the form of space exploration, armaments, and imperialistic adventures. Thus crises were not eliminated by the excess of profit while they did not arise from the tendency of the rate of profit to fall. In other words, these authors, taking their own routes, had returned to the conviction of Tugan-Baranovsky and Hilferding that capital has no objective limit since it can increase production indefinitely despite its antagonistic conditions of distribution, even if a portion of it must be "irrationally wasted.

Without going into the internal contradictions intrinsic to these theories here, it should be noted that they reflect the visible upswing of capitalism in the West, which not only made possible further accumulation with a simultaneous improvement in the workers' standard of living but also remained undamaged by the growth of public spending. Contrary to what had been assumed during the depression, it was not the additional public spending that kept the economy going but the high profits that permitted the luxury of waste production and, beyond that, the alleged transformation of capitalism into an "affluent" or "consumer society." Of course, this period of prosperity does call for an explanation, which can only be found in the actual course of economic events. For Marxism the general explanation of prosperity is simply the existence of profits sufficient to continue accumulation, just as crisis and depression arise in the absence of this state of affairs. Every cyclical wave can be explained more specifically, if only in retrospect, in terms of the phenomena it displays.

If the long depression of the pre-war years was characterised by a general lack of profit, disinvestment's, and an extremely low rate of accumulation, this was not because the productivity of labor had suddenly decisively decreased but because the existing productivity was not great enough to assure the existing capital a further profitable expansion. The average rate of profit determined by the existing capital structure was too low to inspire the individual capitals to increase their production by enlarging the productive apparatus, although they experienced the fall in the average rate of profit not directly but as the growing difficulty of selling their commodities. The need for profit on the part of capital – swelled by fictitious and speculative capital values – cannot be satisfied by the mass of profit at hand, and the resulting decline of profit for each individual capital leads through the interruption of further expansion to a general situation of crisis.

The way out of this situation lies in its reversal, in the creation of a capital structure

and a mass of surplus value that make further accumulation possible. The combination of the destruction of capital throughout the long period of depression with the enormous acceleration of this process by the destruction of capital values during the war created a new world for the surviving capital in which the given mass of profit was at the disposal of a much diminished capital, which accordingly increased its profitability. At the same time, the technological development forced by the war led to a significant rise in labor productivity, which, in connection with the altered capital structure, raised the productivity of capital sufficiently to increase production and enlarge the productive apparatus.

American capital was unable to accumulate during the war, since about half the national product was used for military ends. The post-war period was a period of making up for lost accumulation and the replacement of the means of production that accompanies this. The result was prosperity in which unemployment was for a time reduced to its indispensable minimum. The years between 1949 and 1968 saw "a 50% increase in the amount of capital for each unit of labor employed." This was largely responsible for "the marked acceleration in output per man-hour from 2.3% to 3.5%." As this increase in the productivity of labor was "in excess of the increase in real wages," the rate of profit on capital, while relatively low, was nevertheless stable." The reconstruction of the European and Japanese economy was in part initiated and financed by American grants and loans, which stimulated American exports and secured markets for the growing output far greater than those due to domestic accumulation alone. The private export of capital followed the lead of the government at the first signs of profitability, above all in the form of direct investments, which internationalized the accumulation of American capital and facilitated its valorization. Access to advanced technology, together with restriction of wages, gave the capital newly forming in the reconstructing countries a competitive position in the world market in a number of areas of production.

The productivity of labor rose in Germany, for example, by around 6 percent yearly, and a quarter of total production was invested as additional capital. With the exception of England, things were not much different in the other European countries, while in America the rate of accumulation remained below its historic average. The higher profit rates in the more rapidly accumulating European countries caused an accelerated export of American capital, and this in turn hastened the general economic development of the capital-importing countries. Conditions due to the outcome of the war led to an extraordinary increase in multinational corporations, largely American in origin, which further hastened the general process of capital concentration through actual fusions and liquidation's. Without going further into this well-known story, which was widely celebrated as an "economic miracle" and has been excessively

documented, it should be said that it represents no more than an accelerated rate of accumulation which, just because of this acceleration, raised the profit rate to a point permitting an increase in the product share intended for consumption along with production as a whole.

The “new economies,” however, had been developed to meet the challenge of a crisis apparently without end. Keynesianism had taken two directions. One tendency aimed at overcoming the crisis by state interventions ("pump priming") in order to give the economy free rein again once expansion was achieved. The other was convinced that capitalism had already reached a stationary state and would therefore always require state intervention. As we know, the actual development of the economy confirmed neither of these views but led to a combination of prosperity and continuing state management of the economy. In Western Europe this took the form of a state-forced acceleration of accumulation, so that the “social market economy” did not differ from the “mixed economy.” In America, however, it remained necessary to keep the level of production stable by means of public spending, which led to slow but sure growth of the national debt.

The growth of the public debt can also be traced to America’s imperialistic policy and, later, to the war in Vietnam in particular. But since unemployment did not fall below 4 percent of the total labor force and production capacity was not fully utilized, it is more than plausible that without the “public consumption” of armaments and human slaughter, the number of unemployed would have been much higher than it actually was. And since about half of world production was American, despite the upswing in Western Europe and Japan, one cannot really speak of a complete overcoming of the world crisis, particularly not when the underdeveloped countries are taken into consideration. However brilliant the prosperity was, it was nevertheless confined to no more than a part of world capital and did not result in a general upswing encompassing the world economy.

However this may be, what the “new economics” maintained was that capitalist crisis had lost its inevitability, as every downturn could be counteracted by governmental measures. The crisis cycle was supposedly a thing of the past, for every setback to private production could be compensated by an equivalent increase of state-induced production. A whole arsenal of methods of economic management was now available to secure economic equilibrium and equilibrated development. An expansive monetary policy to stimulate private investments, fiscal flexibility, built-in stabilisers like unemployment insurance – such means, together with the deficit financing of public expenditure, guaranteed a regulated economy with full employment and price stability, which needed only the government’s decision to be made a reality.

To demonstrate the illusory character of the idea of a state regulation of the economy by way of compensatory measures, the Marxian critique of economics only has to point out the profit-oriented nature of capitalist production. This is not to deny all efficacy to Keynesian methods. Just as the expansion of private credit can stimulate economic activity beyond the level to which it would otherwise be limited, the expansion of public spending realised through credit can also at first have a stimulating effect on the economy as a whole. But both methods find their limits in the actual production of profit. Because of these limits it is possible to abstract from credit in the theory of capitalist development without thereby denying the actual role of credit. Where there is no profit to be had, credit will not be sought; and when the economy is in a downturn, credit is seldom granted. Of course, capitalist production has been based on credit for a long time without this affecting its susceptibility to crisis. While the extension of the credit system can be a factor deferring crisis, the actual outbreak of crisis makes it into an aggravating factor because of the larger amount of capital that must be devalued, although in the end this devaluation in turn is a means to overcome the crisis.

The fact that state-induced production has been expanded by means of credit already indicates that the private expansion of it has not been able to sustain prosperity. Since state-induced production in competition with private capital would increasingly aggravate the economic difficulties of the latter without changing the low profitability, the state produces not goods for the market, where their value could be realized and accumulated, but goods for "public consumption." This "public consumption" is at all times paid for by taxation of the workers and the surplus-value-producing capital in order to satisfy the general needs of capitalist society. The extension of "public consumption" through deficit financing also implies a deduction from surplus value and a decrease in private consumption, although with a delay, since this financing is accomplished not through additional taxation but through the mobilization of private money-capital for a long period, i.e., through the public debt.

The whole matter finally comes down to the simple fact that what is consumed cannot be accumulated, so that the growth of "public consumption" cannot be a means to transform a stagnating or declining rate of accumulation into a rising one. If the rate of accumulation is improved, it is due not to public expenditures but to a restored profitability of capital, accomplished by the crisis, sufficiently vigorous to launch a new expansion despite the increase in public expenditures. This also is not altered by the fact that the economic stimulation due to state expenditures can be an impetus to further expansion, since the *expansion itself* can only be achieved through the actual increase of private surplus value. Without this, state-induced production can lead only to a further collapse of the rate of accumulation.

"Mixed economy" means that a part of the national production remains production

for the profit of private capital, while a smaller part consists of state-induced production yielding no surplus value. Thus the total production has a smaller mass of profit at its disposal. Since in general the state does not own means of production and raw materials, it must make use of unutilized capital to get state-induced production going; that is, it must place orders with various enterprises that sell the product requested to the state. These enterprises must valorize their capital and extract surplus value from the workers they employ. This surplus value, however, is not realized on the market by exchange against other commodities but is realized by the money borrowed by the government. The products themselves are either used or wasted.

For the capitalists filling the state's orders, life has been made easier, as they do not have to worry about production and realisation. The part of capital blessed with government orders realizes its profit exactly like the part that produces profitably for the market. But its income has an equivalent in taxation and public debt. It seems as if the state-induced production has increased the total profit. But in reality only the surplus value realized on the market is newly produced surplus value while the surplus value "realized" through state purchases is surplus value previously produced and objectified in money capital.

If the crisis would completely and generally destroy the profitability of capital, capitalist production would stop. In reality, even in the depth of crisis a portion of capital remains sufficiently profitable to continue producing, although on a reduced scale. Another part falls victim to the crisis and thus helps preserve the profitability of the remaining capitals. If this process develops freely, as was generally the case with the crises of the nineteenth century, a shorter or longer period of suffering gives way to a situation in which capital, with an altered structure and a higher rate of exploitation, can recommence accumulation, pushing it beyond the level reached before the crisis. Under the circumstances of the present day, this "healing process" is socially too risky, requiring state interventions to avoid social upheavals.

Due to the high level of capital concentration already achieved, the devaluation of capital by way of competition and the improvement of profitability by way of concentration have lost much of their effectiveness unless these processes are extended beyond national boundaries to the world economy, which must lead to armed confrontations. Since the concentrated capitals totally disregard social needs, even as capitalistically defined, these needs must be supplied by political means, for example, by state subsidisation of profit-poor but necessary branches of production. In short, the viability of society requires state intervention in the distribution of the total social profit.

This redistribution of the social profit in the form of state-induced production in no

way changes the quantity of this profit.

Since the additional production yields no profit of its own, it is of no service to the accumulation of capital. Since the crisis results from insufficient accumulation, it is not eliminated by state-induced production. On the assumption of a capitalism incapable of further accumulation, thus of a situation of permanent crisis, which is a real possibility, the attempt to combat the crisis through deficit-financed, unprofitable public spending would take the following form: the state borrows money to buy products that otherwise would not have been produced. This additional production has an immediate positive effect on the economy as a whole (although this cannot be ascribed to the fashionable but purely speculative "multiplier," based on the untenable bourgeois economic theory). It is obvious that every new investment, whatever its origin, must stimulate economic activity unless it also leads to disinvestment counteracting this stimulative effect. Products are manufactured and workers hired, and the general level of demand must rise along with the new investments. But since the additional production yields no profit, the accumulation difficulty of capital is not solved. At *first,* however, this difficulty merely persists, without being aggravated by the state-induced production.

Since under our assumption private capital is not accumulating and state-induced production, as production for "public consumption," can contribute nothing to accumulation, the maintenance of the existing level of production continually requires additional state expenditures and therefore the perpetual growth of the national debt. Its interest obligations require the state to impose correspondingly higher taxes on productive capital. Of course, these interest payments are a source of income for the state's creditors and as such re-enter consumption or are again invested either in the private economy or in state paper. But we are dealing here in any case with one and the same sum which is given up as profit in order to appear elsewhere as interest. Since a non-accumulating capitalism is not simply a stationary state but implies a regressive situation, the decline in the economy must lead to more and more governmental interventions, which increasingly weaken any new possibility of an upswing for private capital. The compensatory state-induced production thus changes from the means of easing the crisis it originally was to a factor deepening the crisis, as it divests an increasing part of social production of its character as capital, namely its ability to produce additional capital.

The purpose of this picture of a state of permanent crisis is only to demonstrate that unprofitable state-induced production, far from being a means of overcoming crisis, must in the course of time call the capitalist mode of production itself into question. However, since the crisis develops within itself the conditions required to surmount it, the need for continually increasing state-induced production disappears, apart from the fact that the governments concerned, since they are capitalist governments, themselves

feel the need to dismantle state intervention at the point at which it becomes dangerous for the system. To preserve the capitalist economy not just production but the production of profit is required. If profit could be increased simply by additional production, capital would see to it itself and state intervention would not be needed.

Bourgeois economics does not think in terms of the categories of value and surplus value. From its point of view profit is not seen as the determining factor of the economy and its development; indeed, it disputes even the existence of profit. "Much of what is ordinarily called profit," writes Paul Samuelson, for example, "is really nothing but interest, rents, and wages under a different name." When no distinction is made between wages and profits, the relationship between production and profit production is also obscure, and every sort of activity is represented equally in the national income, from which every individual draws his share in proportion to his contribution. In the total production expressed in money terms, the difference between profitable and unprofitable production disappears, and state-induced production and private production are confused in a night in which all price relations, like all cats, are gray. As a result bourgeois economics is unable to foresee the consequences of its own prescriptions.

Nevertheless, the "new economics" claimed the honor of having found the key to the solution of the problem of crisis. Only later was it apparent that it had strutted in borrowed plumes, and that the actual overcoming of the crisis owed nothing to the *Keynesian* anti-crisis mechanism. As already pointed out, this is no reason to deny that it has had any economic effect, since it can serve to initiate a new prosperity when the potential for such a prosperity already exists. In itself, however, additional state-induced production cannot increase the social surplus value and A must decrease it if it continues to expand. Nevertheless, the extension of production that accompanies it, like any extension of credit, can mitigate the conditions of crisis, since its negative effect on the total profit will only be visible at a later point. *In the short run* the state-induced production offers private capital a wider range for action and an improved basis for its own efforts to escape from the shortage of profits for accumulation. If in the meantime private capital succeeds in extricating itself from the crisis, this may appear to be a result of the state's interventions, although the latter would have had no success without the improvement, independent of them, of capital's ability to expand itself.

There is therefore no contradiction in seeing both a crisis-mitigating and a crisis-sharpening factor in governmental fiscal policy. The additional production made possible by deficit financing does appear as additional demand, but as demand unaccompanied by a corresponding increase in total profits. The additional demand consists of money injected into the economy by the state in the form of governmental credit. It nonetheless functions immediately as an increase in demand that stimulates

the economy as a whole and can become the point of departure for a new prosperity if insuperable barriers do not stand in the way of such a prosperity. But only under such circumstances can the unprofitable expansion of production smooth the way for a profitable expansion without even then losing its capitalistically unproductive character. It is the capitalistically unproductive nature of state-induced production that sets definite limits to its utilization in capitalist society, limits that are reached more quickly the longer capital remains in crisis.

In all circumstances the production it induces is due not to the state itself but to its creditworthiness. It is private capital that must foot the bill and spend the money to increase demand. Thus it is private capital itself that finances the deficit, and it is ready to do so precisely because it is unable to operate or even think in terms of society as a whole. The money placed at the government's disposal yields interest, and it is this interest that gives some number of capitalists sufficient reason to lend their money to the state. Once this process is set in motion, it leads to the imposition of a growing tax burden on the capital still producing at a profit, which is thereby drawn into the financing of the deficit. In this way the total capital, both money capital and productive capital, becomes bound up with unprofitable production.. The part of capital that (as we saw above) makes a profit even during the crisis, without transforming it into additional capital, sees its profitability cut even further as a result of the growth of state production, until in the course of time the unwillingness to invest becomes the objective impossibility to do so. In this sense, in the absence of a spontaneous reprise of profitable accumulation, state-induced production will change from a result of a crisis into a cause of its further aggravation.

The positive effect of state intervention on the economy is thus only temporary and turns into its opposite if the expected stimulation of profitable production does not occur or takes too long. The representatives of the "new economics" had, so to speak, a stroke of luck, in that the new prosperity, which they *did not* expect, developed along with the state interventions. If it had not developed, the stimulating effect of the state-induced increase in production would have progressively declined, until the government's action itself became an obstacle to the surmounting of the crisis. If Keynesianism does not deserve the credit for the actual prosperity, it does not provide weapons for fighting crisis either; hence the capitalist law of crisis continues to dominate the system, just as before the discovery of the "new economics."

The lengthy period of upswing, however, was impressive enough to stimulate the expectation – just as at the turn of the century – that the business cycle was tending to flatten out, so that the periods of depression, now grown milder, could be counteracted by less stringent state measures. Those breaks in expansion that still occurred were seen as no more than "growth recessions," which did not threaten the existing level of

production, or simple "pauses" within a continual increase of production. At the onset of such pauses the governmental money and fiscal policy would be enough to overcome the gap between demand and supply and so clear the way to further growth.

The relative reduction of the deficit financing of public expenditures made possible by the rapid development of profitable production strengthened the conviction that the interplay of the market economy and state economic regulation had once and for all eliminated the crisis problem. While taxation absorbed a great part of the national income – in America, e.g., 32 percent and in West Germany 35 percent – state expenditures nevertheless did not grow faster than total production. And while the national debt continued to grow, it was at a slower pace. In America, for example, the national debt amounted to $278.7 billion in 1945 and $493 billion in 1973. The interest obligations increased during the same period from $3.66 billion to $21.2 billion. The share of interest costs in the national product nonetheless remained the same, namely 1.7 percent. Similar proportions held in other countries. What is important here is to see that with a more rapidly growing total production, the interest burden can be kept stable despite a growing national debt.

The increased share of the state in the national product represents a drain on the total surplus value, absorbing a portion of the surplus value that can therefore not enter into the accumulation of private capital. But the fact that private capital accumulation did continue kept the size of the state's share of surplus value relatively stable; it grew slowly though *absolutely*. The resulting relationship between state-induced production and total production, between national debt and national income, can manifest itself as a steady growth of production with a constant rate of accumulation along with a relatively lower rate of profit. But this relationship is extremely delicate just because of the low profit rate, which in addition is influenced adversely by the continuation of accumulation. On the one hand, as we know, accumulation increases the productivity of labor; on the other, by raising the organic composition of capital it depresses the rate of profit. Every new divergence between profitability and accumulation will turn a hitherto supportable state deduction from the total social profit into a factor impeding the accumulation process. Thus private capital's first reaction to the fall in the already low rate of profit is to demand the cutting of public expenditure or the reestablishment of a relationship between state-induced production and total production that does not threaten accumulation.

The more capital accumulates, the greater is its sensitivity to the quantity of profit. To escape the pressure of the declining average rate of profit and to safeguard the valorization of the existing capital, monopolizing capital seeks to set its supply price to meet its own profit requirements so as to make its own accumulation independent of the market. Of course, this is possible only within certain limits. Since neither the total

social product nor the total surplus value can be enlarged by price manipulations, monopoly profits can only arise from the further fall of the profits of the competitive capitals, still ruled by the average rate of profit. To the extent that monopoly profit exceeds the average profit it reduces the latter and thus continually destroys its own basis. In this way monopoly profit tends toward the average profit, a process that is of course retarded by the international extension of monopolization. But this unequal appropriation of the total social surplus value cannot change the magnitude of this surplus value unless monopolization affects not only price determination but also the production process, as when the destruction of competitive capital leads to an increase in the productivity of labor and so the growth of surplus value.

The development of capital in the mixed economy and under the pressure of monopoly is far more dependent on the rapid increase in the mass of surplus value than it was under laissez-faire conditions. Since the growth of production excludes an equivalent growth of profits and must therefore grow more rapidly than profit if the latter is to remain adequate to the requirements of accumulation, a slowing rate of accumulation must lead to crisis. Inversely, accumulation in turn depends on sufficient profits. But just as monopoly profits can be achieved for a long time at the expense of the general profit, so also the general profit can be maintained for a considerable time at the expense of the society as a whole. The means to this end are to be found in the state's money and fiscal policy.

The accumulation of capital in itself represents no problem so long as the necessary profits are available, and capital was accumulated for a long time in general independence of state expenditures. The utilization of state monetary and fiscal policy to influence the economy indicates a situation in which accumulation has become a problem, and one that can no longer be handled without conscious management of the economic process. The problem is summed up in the single word "profit." Each capital must worry about its own profit, but it is just this that leads to the crisis (of overaccumulation whose periodic appearance becomes ever less bearable. The consequences of the crisis – overproduction and unemployment – can be mitigated by increasing public works, but the cause of the crisis – the lack of profit that hinders further accumulation – cannot be dealt with in this way. With public works as without them, it is up to capital to get itself out of the crisis. In order not to place further difficulties in capital's path, the increased public expenditures are financed by way of deficits. The taxation of capital can therefore be fairly restrained at first in order not to diminish further the needed surplus value. This, however, engenders an inflationary process which, once under way, conditions the further development of capitalist production.

Inflation is a weapon in the Keynesian arsenal. Through the more rapid increase in

prices relative to wages, the profit necessary for expansion grows, while the accelerated creation of money reduces the interest on debt, which makes investment easier. Inflation is here seen as a method for enlarging surplus value. The surplus value gained in this way, equal to the reduction in the value of labor power plus the surplus value transferred from money capital to productive capital, permits a corresponding increase in accumulation.

The money borrowed by the government is injected into the economy through the conduit of profitless production. Although its *final products* fall in the sphere of "public consumption" and so do not appear on the commodity market, this production directly enlarges the total demand. The increased sum of money entering into circulation allows the prices of commodities intended for private consumption also to rise. This process is clearly observable in war time, and governments attempt to avoid the inflation then resulting from the interaction of a decreased or constant commodity supply with the increased money income due to war production by such means as forced savings and the rationing of use values. If in a weaker form, the increase in the money supply due to deficit financing leads to an endless process of inflation, since nothing opposes the increase in prices the expansion of the money supply makes possible.

The increased sum of money entering into circulation confronts, at first, an unchanged total surplus value in the form of a certain quantity of commodities. The increase in prices made possible by monetary growth improves the profitability of capital. To the surplus value created in production is added the value derived from price increases or the loss in the buying power of money. This increase in profit represents a new division of the total social income to the advantage of capital; it cannot alter the size of the total product or its value as such. The value of labor power is lowered by the detour of circulation, as is the income share of those groups within the population who live on surplus value, with a corresponding increase in the share going to capital. Only if the additional surplus value extracted via the circulation process is accumulated, so as to increase the productivity of labor and thereby the social product, has the increased mass of profit changed from money form into the capital form. Otherwise the increased profit ability leads only to a further fall in private demand and to more unused capital.

The real gains that inflation yields to capital are thus only another form of the devaluation of labor power, which happens in every crisis. What used to be accomplished by deflationary means is now effected by inflationary means, not by lowering wages but by raising prices – or by a combination of both. The increase in profits by means of inflation encounters definite barriers, however, as the reduction of the value of labor power has absolute limits, and even these cannot be reached because of the resistance of the workers. Moreover, the increase in total demand brings with it an increase in the demand for labor power, which in itself restricts the lowering of

wages by price inflation.

The crisis can only be said to have been overcome when capital value can be expanded without reducing the value of labor power, so that the new prosperity brings increasing wages with it. This cannot be achieved through the “public spending” of the government, as this, in the final analysis, accomplishes only the draining of a growing portion of the surplus value existing in the form of money into “public consumption.” If the policy of public spending is nonetheless adopted, it is because there is no other alternative for capital to the risk of increased unemployment and an extensive destruction of capital. “Public consumption” also represents destruction of capital, accepted and regulated in the hope that the system on its own will create the conditions for a continuance of capital accumulation; it represents, in other words, management not of the economy but of the crisis.

If the growing public expenditures are not to become a factor deepening the crisis, capital must succeed, first, in keeping the growing national debt within the limits set for it by the actual creation of surplus value, and second, in re-establishing the conditions of further accumulation – that is, in increasing profit more quickly than it is spent in unprofitable production. A certain amount of surplus value is absorbed by the state in any ease, apart from the amount used for the reduction of unemployment by state-induced production. This share has steadily grown. Here, however, we are concerned only with the increase in the additional amount deducted from surplus value for state-induced production. This presents a further obstacle to capital accumulation, although it is an obstacle that can be pushed aside if capital succeeds in abolishing unemployment by continuing to accumulate. This, however, requires a rate of accumulation high enough for the absolute number of surplus-value-producing workers to increase fast enough to off-set its relative decline (the rising organic composition of capital). Such a rate of accumulation was approached in the postwar decades by several Western European countries; the ensuing prosperity even led to the import of labor power, although this of course indicated the persistence of unemployment in other countries. In the United States the unemployment level stabilized at about 4 percent of the total active population – an officially recognized percentage that came to be accepted as “normal” and as compatible with the concept of “full employment.”

The fact that state-induced production, insofar as it was represented by the national debt, has so far amounted only to a rather small fraction of total production, together with the fact that its costs were at first limited to the interest payments on the national debt and so claimed only a fraction of the capital disappearing into “public consumption,” postponed the reckoning imposed on private capital and had no immediate negative effect. Of course, the money loaned to the government has turned into the national debt, backed by nothing but the government’s promise to meet its

obligations some day and meanwhile to pay the creditors the interest due them. The money capital utilized by the government is not invested as capital and so preserved but disappears into "public consumption." If the state debt is ever paid off – which may well not happen – it can only be paid out of new surplus value freshly created in production. And this would in no way alter the fact that the surplus value represented in the national debt has vanished without a trace instead of adding its volume to the accumulation of capital.

It follows that the state's use of increased public spending to fight crisis ends by consuming capital. This consumption of capital appears as a growth of production and employment, but due to its unprofitable character, it is no longer *capitalist* production and really amounts to a hidden form of the expropriation of capital by the state. The state uses the money of one group of capitalists to buy the production of another group, with the intention of satisfying both groups by assuring for one the interest on and for the other the profitability of its capital. But the incomes that appear here as interest and profit can only be paid out of the total social surplus value actually produced, even if the reckoning can be deterred. As a result, from the standpoint of the system as a whole the proceeds of state-induced production must count as a deduction from the total profit and therefore as a diminution of the surplus value needed for accumulation. Since the crisis results from a shortage of surplus value, it can hardly be overcome by increasing this shortage.

It is true, of course, that the profit shortage manifested in the form of crisis is neither aggravated nor diminished directly by state-induced production, and that production, employment, and income increase just because means of production and labor power, which would not have been utilized without the state's intervention, are set in motion. But the means of production and the consumer goods consumed by workers employed in this part of production do not form part of capital, if viewed from the standpoint of the system as a whole. For the individual capitals involved, their outlays on means of production and labor power function as capital and yield them profits. But their profit means a loss of profits for all other capitalists and so stimulates their attempts to shift this loss to the shoulders of the population as a whole by means of price increases. Since the loss of profits due to state-induced production is spread over the society as a whole, it remains tolerable for a long time, without thereby ceasing to diminish the total profit.

This is not the place to go into the wider implications of state-induced production. What is important for us is only to see clearly that capitalism's susceptibility to crisis cannot be overcome by this means. Whatever effects state-induced production may have in a crisis situation, it cannot increase profits and is therefore no instrument for overcoming crisis. Its continuing use can only enlarge the unprofitable portion of

society's production and in this way progressively destroy its capitalist character. True prosperity, in contrast, depends on the increase in surplus value for the further expansion of capital. It must be admitted that capital has succeeded in creating, out of its own resources, the prosperity of the recent past; but with it has also created the conditions for a new crisis.

However, this statement must be qualified. Just as the last great crisis differed from its predecessors, and in its length, extent, and violence shook the world uniquely, so the prosperity that began after the Second World War had a particular character differentiating it from earlier prosperities. It was accompanied from the start by an extraordinary growth of credit and so of money, which left the increase in production far behind and stimulated and sustained the prosperity by means of inflation. The growth of credit is a characteristic of every prosperity, and its acceleration, according to Marx, is a symptom of approaching crisis. In bourgeois economic theory also the rapid expansion of credit and the accompanying price inflation have been viewed as signs of a prosperity nearing its end and the approach of a period of economic downturn, since the reserve requirements of the banks set definite limits to the extension of credit. As these limits are approached, the price of credit soars, and the demand for it falls, bringing the inflationary effects of the boom to an end. If the prosperity does not rest on resources sufficient to continue it, i.e., on a rate of profit sufficient for accumulation, it can, however, be sustained by a looser state monetary and credit policy, though at the cost of increasing inflation.

A "cheap money" policy cuts down on the general debt burden and lightens the interest service on the national debt, on the one hand, and adds to the state's demand for credit the demands of industry and consumers, on the other. It makes possible a rapid advance of production at the cost of increasing indebtedness and rising inflation. In the United States, for instance, the total product grew between 1946 and 1970 by around 130 percent in real terms, but by around 368 percent in money terms. Total debt – excluding government debt – rose during the same period by 798 percent. Just like the government's demand for credit for the deficit financing of public expenditure, the expansion of private credit also increases economic activity beyond the level it would otherwise have reached, but without thereby being able really to change the productivity of labor and the quantity of surplus value, which develop independently of the growth of credit. Like governmental deficit financing, private indebtedness also depends on the expectation that production will grow without limit and can be extended in proportion to the expansion of credit.

What this proportion is, however, cannot be established. In the expectation of continuous and increasing production, with the higher incomes this will allow, and driven by capital's need to expand if it is to maintain itself, capitals compete by means

of the credit system, which thus runs the danger of development far beyond the basis afforded by the actual level of social production. “Of course, the danger is not so great for the creditors, who, to a great extent are freed to raise the price of credit and can include their apparent losses in setting interest rates, which in itself leads to higher prices. In part the risk is shifted to the population as a whole by allowing capitalist debtors to deduct debt and interest payments from their taxes. Nevertheless, inflationary credit escapes the control of governmental monetary and credit policy, since inflation itself counteracts the state’s raising of the cost of credit by manipulating the interest rate, and since the demand for credit can increase even with higher interest rates. Naturally, the government can halt the expansion of credit by increasing reserve requirements, but this would threaten the prosperity on which the government itself depends. Whenever this way of halting inflation has been tried, the resulting recession has forced a return to the inflationary credit policy. If the extraordinary growth of private debt was a means of maintaining the prosperity thanks to which the growth of the state debt could be slowed down, the money and credit inflation w~ both a cause and a consequence of a prosperity that to an increasing extent was based on future profits, and that was therefore bound to collapse when they did not appear. As the inflation-caused differential between price and wage formation allowed profits to rise, the pressure of accumulation on the rate of profit was less noticeable. However, the sole result of this – at least for America, as noted above – was a profit rate stabilized at a relatively low level, which without the government’s inflationary policy would not have sufficed to enlarge production to the degree attained. Of course, the inflation contains its own contradictions; from a stimulus to the economy it can turn into a factor undermining it, since the real contradictions of capitalist production cannot be eliminated by techniques of finance. If the expansion of private credit reaches the limits set by the actual profitability of capital, then the prosperity it has engendered comes to an end, requiring additional state-induced production if the economic decline is to be halted, without thus being able to prevent it.

From the standpoint of the “new economics,” the inflationary money and credit policy was a method of surmounting crisis and restoring full employment. The illusion that this policy could lead to the restoration of an equilibrium based on price stability soon disappeared, however, in response to empirical facts if not to theoretical insight. The economist A. W. Phillips, in a historical investigation of the relation between wages and employment levels in England, made the not very surprising observation that rising wages and prices are correlated with decreasing unemployment, and falling wages and prices with increasing unemployment. Following the custom of economists, this observation was graphed, by the so-called Phillips curve, which represents changes of wages and prices as a function of employment. This was supposed to show clearly that growing employment implied wage and price inflation, so that the only choice is

between inflation and unemployment.

For example, it was calculated on the basis of the Phillips curve that in postwar America, without inflation unemployment would rise to between 6 and 8 percent of the working population, while with a 3 or 4 percent rate of inflation it could be reduced to 4 or 4.5 percent. Thus there was not only the choice between unemployment and inflation but also the possibility of using state intervention to restore the balance between unemployment and inflation necessary for prosperity. Any excessive increase in unemployment could be overcome through a corresponding increase in inflation, which, in the eyes of the economists, was really not too high a price to pay for permanent prosperity. This is because, in the words of a theoretician of "functional finance,"

> Inflation does not constitute a reduction in the goods available for people to buy. The idea that the buyer's loss from inflation can be treated as a social loss contravenes the first principle of elementary economics: the principle of remembering that if anybody pays any money somebody else must be getting it. Every 1% increase in prices, although it means that the buyers have to pay 1% more, also means that the sellers receive 1% more. Since both the sellers and the buyers are members of the society, society in the aggregate neither loses nor gains. Indeed, most people are both buyers and sellers, at different times of the week or even of the day; so that the greater part of the losses when buying and the gains when selling cancel out, and perhaps only one quarter of the 1% of the national income involved is an actual transfer from some people to other people. This net transfer of 1/4 of 1% from the buyers to the sellers changes the distribution of income and wealth, but there is no more reason for supposing that the new distribution is worse than the old distribution than for supposing that it is better.

This cold-blooded falsification of the real function of inflation enabled the representatives of the "new economics" to see their theory empirically confirmed by an inflationary prosperity with a stable level of unemployment until one day, the increasing rate of inflation was accompanied by growing unemployment, and the theory was revealed to be false. With this bourgeois economic theory fell into a second crisis, if we see its first crisis in the general confusion that preceded Keynesianism and was seemingly resolved by it. It was realized that the regulative measures suggested by Keynesian theory are not only limited and double-edged but also subject to contradictions inherent in the capitalist system. Economics, which according to Paul Samuelson had been transformed, thanks to Keynesianism, from a dismal into "a cheerful science," relapsed into its original gloom. "In the post-Keynes era," Samuelson explained,

> we have at our disposal the instruments of a monetary and fiscal policy that can create the purchasing power necessary for the avoidance of great crises. No well-informed person still worries himself about the size of the public debt; so long as the Gross National Product and the nation's fiscal capacity keep pace with the

> growth of the interest on the national debt, this problem is only a worry of the seventeenth rank, and no-one is losing sleep over growing automation or business cycles. However, along with all our triumphant satisfaction there is still a spectre that haunts us: galloping inflation. It is the new scourge, which the pre-1914 theoreticians did not foresee. – . . With what we know today, we are indeed able to avoid a chronic recession, or to initiate a needed spending policy. But we don't yet know how to stop a cost-push inflation, without the cure being nearly worse for the economy than the disease.

It completely escapes Samuelson that the dread "scourge" of inflation and the "triumphant" monetary and fiscal policy are one and the same and that inflation cannot be fought with inflation. Of course, he distinguishes between two types of inflation: first, one stemming from an excess demand pushing up prices, which can be easily controlled by cutting incomes; and second, the supply inflation of recent times, which arises "from the pressure of wage costs along with the attempts made by giant firms to maintain undiminished profit margins." For this second type no solution has yet been found, for experience teaches that government-imposed wage and price controls have only short-term effects.

Since the capitalist crisis was supposedly caused by insufficient demand, which was mastered exactly by means of the "triumphant" monetary and fiscal policy, it is difficult to understand how this triumph over crisis has itself turned into an inflationary state of crisis that is manifesting itself once again in growing unemployment. To surmount this new crisis situation, according to Samuelson, profits and wages must be decreased, which would inevitably result in an insufficient demand, which in turn would have to be mastered anew with the "triumphant monetary and fiscal policy."

Samuelson considers it "a truism, that the price level must rise when all the factors of cost rise more quickly than the volume of production." But why doesn't the volume of production rise? Because "wages rise more quickly than the average productivity of labor," answers Samuelson. But why doesn't labor productivity rise faster than wages? Since the rise in productivity depends on technological development, and this depends on capital accumulation, it must be because capital is not accumulating fast enough. But why not, when "the giant firms maintain undiminished profit margins"? Well, we just don't know. "A good scientist," says Samuelson, "must be able to admit his ignorance"'the ignorance that for this good scientist led to the Nobel Prize.

Another Nobel Prize winner, Kenneth Arrow, observed with resignation that

> the resolution of any problem always creates a new problem. From the beginning of the Keynesian era, the fear has been expressed that vigorous full-employment policies will lead to inflation. Standard economic theory has been built in large measure about the idea of equilibrium, that an exact balancing of supply and demand on all markets, including the labor market, will lead to steady prices,

> while an excess of supply leads to a downward pressure. Thus, unemployment ought to lead to wage declines; they manifestly have not done so in recent years. The coexistence of inflation and unemployment is thus an intellectual riddle and an uncomfortable fact.

Until this riddle is solved, together with the elimination of this uncomfortable fact, we should nevertheless bear in mind that

> the rates of inflation with which we have had to contend impose no insuperable problem or even major difficulty to the operation of the economic system, nothing comparable to the major depressions of the past. Individuals will learn and have learned to deal with inflation, making theft plans to take expected inflation into account.

The ignorance that Samuelson admits and Arrow's unanswered riddle cannot be dealt with on the basis of bourgeois economic theory. But this theory cannot be renounced without giving up an important component of the ideology necessary to capitalist society. However, it is not only that the "riddle" of inflation with growing unemployment spells the bankruptcy of the Keynesian theory of full employment in its neo-classical version; in view of present-day conditions, the whole conceptual scheme of bourgeois economics has lost even that semblance of relevance to reality required by its ideological function. Even many economic ideologists have come to find the encumbrance of the neoclassical equilibrium price theory insupportable and have attempted to free themselves from it and to develop theories that fly less in the face of real economic relations. Of course, the so-called crisis of academic economics is not a general phenomenon. The majority of economic theorists still remain undisturbed by the divergence between theory and reality. This is not to be wondered at, since this phenomenon can be noted in other ideological areas also: there is no God but there are many hundreds of thousands of theologians.

For another group of theorists the "second crisis" of economics stems not from the riddle of the failure of monetary and fiscal policy to sustain full employment but from the problem of distribution, left unexamined by the neo-classical economists. Along with neo-Marxists like Baran and Sweezy, "left" Keynesians accepted the proposition that Keynesian methods could achieve full employment. In contrast to the neo-Marxists, the "left" Keynesians do not believe in the necessity of waste production. Full employment, they believe, can also be maintained by increasing the consumption of the population. Theoretically the concept of marginal productivity is seen as untenable as a basis for explaining the distribution of income and as no more than an apologia for the prevailing unfair mode of distribution.

Practically the Keynesian methods of increasing production by state intervention should be matched by a politically determined distribution co-ordinated with it. By

concerning itself with problems of the distribution of the social product, as in Ricardo's original formulation of its goals, economics should return to its origin in political economy.

Thus, while the current state of affairs presents the representatives of the "new economics" with an unanswered riddle, "left" Keynesianism is still occupied with the hypothesis of a crisis-free economy in which the only problem is how the benefits of steadily increasing production are to be shared among the whole society. This would require not only a different principle of distribution than the existing one but also a different division of social labor, transferring resources from waste production to production for private consumption. Since this would require the direct competition of state-induced production with production for private account, which would only lead to the further subordination of the private sector of the economy to the state sector, this program could be carried out only through a struggle against private capitalism. And in fact "left" Keynesianism inclines toward state-capitalism-and in this sense converges with neo-Marxism, without thereby losing its lack of relation to reality.

The still unsolved "riddle" of economic stagnation with growing unemployment and an increasing rate of inflation, given a name with the concept of "stagflation," is in fact no riddle but a phenomenon known for a long time and put to use in the drive for higher profits under conditions unfavorable for the production of surplus value. Mass unemployment accompanied the "classic" German inflation after the First World War. Today it accompanies the forced accumulation in the capital-poor countries. The creeping inflation that is a constant feature in the capitalistically developed countries also indicates a level of profitability too low for the accumulation requirements of capital, which is certainly masked, but not overcome, by the increase in production. Inflation is not a natural phenomenon but the result of monetary and fiscal policies that could also be discontinued. If a government is unwilling to abandon the inflationary course, it is because of anxiety about the resulting economic stagnation, for this would be as injurious to it as to capital itself since every deflationary measure, every economic downturn also decreases the share of surplus value going to the government.

It is impossible to establish empirically either the accumulation requirements of capital or, therefore, the mass of surplus value that would satisfy them. That the relation between the two is not "in order" is only indicated indirectly through events in the market. Whether the state's interventions through money and fiscal policy are able to restore the necessary relationship between profit and accumulation can likewise be discovered only in further market events. Thus the state can only react blindly to uncomprehended economic fluctuations in its attempt both to stimulate the economy and to secure the profitability of capital and its accumulation. But the first of these contradicts the second, although of course this, too, becomes apparent only later, in the

market, through the combination of inflation with growing unemployment.

If the inflationary monetary and credit policy is a means to increase production, then the newly arising unemployment should in turn disappear with the acceleration of inflation. But the theoreticians of inflation themselves shrink before this consistent application of their theory, which would lead from creeping to galloping inflation. The deficit financing of public expenditures and the inflationary monetary and credit policy ought, they say, not be pushed too far, for this would call the future existence of the system itself into question. This confession is of course also an admission that creeping inflation can be useful to capital only insofar as it fosters an increase in profit at the expense of society as a whole. But his does not mean that the increase in profit makes possible a rate of accumulation that could be described as capitalist prosperity. The appearance of growing unemployment with creeping inflation reveals that profits cannot be sufficiently increased by means of inflation to head off the incipient stagnation.

Inflation is a world-wide phenomenon. This indicates not only the mutual interdependencies and the complexity that characterise the global economy but also the sharpening general competition, which is also waged with the weapons of currency policy. The hunger for profit is universal, and the longing for additional capital can find no satisfaction in a world in which ever greater capital masses oppose each other competitively and must always continue to grow, not only to be able to hold their own but also to escape the economic stagnation that would otherwise set in. It is without a doubt true that monopoly profit can be maintained and indeed increased even under the conditions of stagnation, but only at the cost of aggravated stagnation and an irresistible decline in the economy From this arises the need for further state interventions, which of themselves contribute to the disintegration of the system. Thus the future of capital still depends upon accumulation, even if accumulation promises it no future.

Just as the long years of prosperity did not affect all capitalist countries equally, the onset of crisis has different effects in different countries. But everywhere the change from prosperity to stagnation is already visible, and to the fear of further inflation is joined the fear of a new crisis. Whether the spreading crisis can once again be halted by state interventions, which will combat today's difficulties at the cost of capital's life expectancy, cannot be theoretically determined. Without a doubt it will be attempted, but the result may very well lead to no more than the temporary consolidation of the given precarious circumstances-and with this to a prolonged decay of the capitalist system. Sooner or later we will daily find before our eyes the empirical confirmation Marx's theory of accumulation: capitalism's susceptibility to crisis and decay.