THE CRISIS OF AMERICAN CAPITALISM

By Paul M. Sweezy

The view that American capitalism is in a period of crisis is now all but universal, shared alike by observers of all political and ideological persuasions. The important question is therefore whether it is of a temporary cyclical nature—as, for example, the representatives of the administration in power maintain—or whether it is something deeper and more long-run, as an increasing number of unofficial analysts believe. If the former of these views were correct, we would not need to spend much time on the subject. After all, cyclical crises have characterized the history of capitalism for at least a hundred and fifty years, and most of them have not left any lasting effect. Or perhaps it would be more accurate to say that most of them have had a beneficial effect in that they have been the means whereby accumulated distortions and disequilibria have been corrected and the system has prepared itself for a new advance.

But not all earlier crises have been of that kind. And one in particular, which is still very fresh in the minds of people of my generation, was a horse of an entirely different color. I refer of course to the Great Depression of the 1930s which certainly did not set the stage for a renewed advance of capitalism. The system was still stuck in a quagmire of stagnation ten years after the onset of the crisis. What it did set the stage for was profound

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changes in some of the leading capitalist countries—the best examples being the New Deal in the United States and the fascist regime in Germany—and it also and more importantly set the stage for the Second World War which finally brought the Great Depression to an end and opened up a radically new phase of capitalist development.

I believe that the present crisis is of this second kind: not one which will eliminate distortions and correct disequilibria, leading to a new advance, but one which will drag on, with minor ups and downs, bringing in its train historical changes and transformations as momentous as those of the 1930s and 1940s.

Everyone who deals with this subject, regardless of whether he or she considers the present crisis to be of the temporary or long-run variety, has to have a theory to operate with. The theory may be explicit and thought-out, or it may be implicit and not even consciously recognized. It seems to me to be especially incumbent on those of us who believe the present crisis to be of the graver kind to indicate, at least in rough outline, what theory we are operating with.

My theory is of course Marxist in the sense of locating the dynamic of capitalist development in the process of capital accumulation. But it also draws upon or combines a line of thought which originated with Michal Kalecki and attained its most complete expression in the work of Josef Steindl, published in the early 1950s, *Maturity and Stagnation in American Capitalism* (recently re-issued in paperback by Monthly Review Press). A simpler version was presented in Paul Baran's and my book *Monopoly Capital,* begun in 1956 and published in 1966.

This theory is best described, I think, as an "overaccumulation" theory. It holds that under monopoly capitalism as it has developed in the advanced capitalist countries during the twentieth century there is a strong, persistent, and growing tendency for more surplus value to be produced than can find profitable investment outlets. Where this situation obtains, as some followers of Keynes like Alvin Hansen suggested as long ago as the 1930s, the result will be a decline—or slowdown in the rate of growth—of output and income, with rising unemployment and falling rates of utilization of productive capacity. And this situation in turn puts an added damper on investment and economic growth. I said that this set of tendencies is both persistent and growing in intensity. The reason is that the process of monopolization—what Marx called the concentration and centralization of capital—is a continuing one which has characterized the history of capitalism throughout the present century and is still operating. We can sum up by saying: the more monopolistic the economy, the stronger the tendency to stagnation.

Let me digress for a moment to comment on the strange failure of Keynesian theory to make the connection between monopoly (including oligopoly and other forms of blocks to competition) and stagnation, in spite of the fact that the period of its emergence—in the early to mid-1930s—was also the period when orthodox economic theory was beginning to deal seriously with the problems of oligopoly and monopolistic competition. The trouble was that Keynesian theory was wholly on the macro level (dealing with the economy as a whole), while the new monopolistic theories remained wholly on the micro level (dealing with individual industries and firms). It was left to Kalecki to be the first to integrate the two. And of course it was Kalecki's lead that Steindl followed up.

To return to our main theme: if a monopoly capitalist economy tends toward stagnation—in the same sense that it always used to be assumed that a competitive capitalist economy tends toward full employment—then the problem to be explained is periods of sustained expansion and buoyancy. The problem, in other words, is *not* why we have sluggish growth and persistently high unemployment but the opposite: why we have long waves of prosperity with vigorous cyclical upswings and only mild cyclical downswings. Stagnation is the norm, good times the exception.

Looking at the recent history of capitalism from this point of view, we see that the problem to be explained is not the Great Depression of the 1930s, as orthodox economics has always thought, but rather the long wave of expansion and relative prosperity which has characterized most of the period since the Second World War.

What were the forces behind this unprecedented long wave of expansion? If I were undertaking to write the post-Second World War history of capitalism, this is the framework within which I would work. Naturally in a brief survey one can do no more than touch on some of the highlights.

(1) Underlying everything else was the emergence of the United States from the war as the unchallenged hegemonic power in the global capitalist system—and also for a considerable period among all the nations of the earth, noncapitalist as well as capitalist. In the interwar period, under the pressures of the Great Depression, capitalism had disintegrated into warring currency and trading blocs. Now it was re-united as it had been under British hegemony in the nineteenth century, with a new international monetary system and a greatly liberalized trading system. The dollar was established as the unit of universal money by the Bretton Woods agreements; and the IMF, the World Bank, and the GATT were created to facilitate the functioning of the new global system. All this set the stage for an enormous growth in world trade and capital movements.

(2) Rebuilding war-shattered and war-depleted economies gave a spur to capital accumulation, to which must be added the effects of the militarization of the United States as the new hegemonic power. It is no accident that the postwar recovery of both Germany and Japan really began with the Korean War.

(3) New technologies growing out of wartime developments—electronics, jet planes, etc.—opened up expanded investment outlets.

(4) Very important was the process that may be called "automobilization." This had begun on a large scale in the United States during and after the First World War and in fact was the backbone of the U.S. prosperity of the 1920s. It included not only the expansion of the automobile industry and closely related industries like oil, rubber, and glass, but also the building of roads and highways, the spread of population to suburbia, and the far-reaching relocation of economic activity in general. After a long interruption during the Great Depression and the war itself, the process resumed with great force after the war, enormously facilitated in the United States by the extremely favorable debt-liquidity situation of individuals and

corporations at the end of the war. In Europe and also in the more advanced of the Third World countries, automobilization began in earnest only after the Second World War.

There were other factors as well, but the ones listed were doubtless the most important. All were basic and powerful, but all were necessarily subject to a sort of law of diminishing returns. Or, put in other terms, the stimulus which they provided, individually and collectively, to the worldwide capital accumulation process was bound to diminish sooner or later. Just when this began to happen and in what order as between different countries and regions could be the subject of many debates. As far as the United States is concerned one could plausibly argue that a definite slowdown began in the late 1950s and early 1960s but was at least partly reversed by accelerated militarization under the Kennedy administration and then by the Vietnam war. At any rate by the 1970s, as the Vietnam war entered its last stage, the trend was already clear. The logical result was that the cyclical downturn of 1974-1975 was much sharper than any of its postwar predecessors and also more uniform and concentrated in its impact on the whole global capitalist system.

Here we must pause to notice that capitalism had inherited from the Great Depression a belief, given its clearest expression in Keynesian theory, that governments have the power, through fiscal and monetary policies, to regulate their economies and keep cyclical fluctuations within narrow limits. The prescription calls for tight money and balanced or overbalanced budgets in upswings, easy money and deficits in recessions. The implicit assumption was that the economy would operate around a full-employment trend line, that budgetary surpluses and deficits would cancel out, and that the result would be relatively steady secular expansion and price stability.

But what if the real problem is not cyclical ups and downs but rather permanent stagnation? This question was not asked and of course not discussed or debated either. The answer therefore only gradually began to emerge through the continued application of Keynesian policies to the situation of the 1960s and 1970s when the new period of stagnation was beginning to take shape. Gradually, budgetary deficits became the rule rather than the exception, and the private debt structure—especially mortgage and consumer installment debt—grew more and more rapidly. Conventional theory taught that the consequence should have been a corresponding expansion of effective demand leading to full employment and the need for appropriate restrictive policies. But what happened in the increasingly noncompetitive conditions of the sixties and seventies was that much of the increase in monetary demand was dissipated in inflationary price increases rather than in expanded output. Hence the emergence, beginning with the downturn of 1974, of the previously unknown and unsuspected phenomenon of "stagflation"—stagnation *and* inflation. For this malady conventional theory had no explanation—since, as I pointed out previously, it had never integrated macro and micro theories—and of course no remedy.

The prognosis suggested by the analysis I have been presenting is obviously not cheerful. It is one of continuing stagflation (with some sort of trade-off operating between the two elements of the combination, deeper stagnation acting to moderate inflation, and moderating stagnation tending to produce an acceleration of inflation), punctuated by more or less severe crises and panics generated in the financial superstructure of the economy.

But it is not only a radical critique that gives rise to a gloomy prognosis. Establishment economists, though they have no theory to account for the predicament we are in, are becoming increasingly pessimistic about finding a way out. Illustrative of this trend of thought is an article in the March-April issue of *Challenge* magazine by Alan Greenspan, a conservative economist who was head of the Council of Economic Advisers in the Ford administration. Comparing the situation today with that of 1929, Greenspan notes the absence of excessive stock-market speculation but believes that the rapid run-up of housing prices in recent years could play a similar role today. This phenomenon—which incidentally had a small-scale counterpart in the Florida real estate boom of the 1920s—is related as both cause and effect to the enormous growth during the latest cyclical upswing of consumer debt, which Greenspan considers to be the weakest sector of the U.S. domestic economy. Government statistics show that the proportion of disposable personal income committed to debt service is at an historic peak of 28 percent.

But this underrates the seriousness of the situation since a fifth of households are debt-free, which means that a very large number are devoting a third to a half of their incomes to interest and repayment of debt. Under these circumstances a downswing, unless checked in time, could lead to a cascade of bankruptcies and a catastrophic drop in effective demand.

To this dangerous domestic situation must be added, according to Greenspan, two international considerations of comparable gravity: (1) the huge and rapidly growing debt of non-oil-producing Third World countries owed for the most part to the multinational banks of the metropolitan centers. With no prospect in sight of a reversal of the factors which led to this Third World debt explosion, the problem can only get worse, threatening alike the solvency of scores of governments and many of the biggest banks of the capitalist world. (2) Related to the foregoing but of much wider scope—since the nations involved include developed capitalist countries, those with centrally planned economies, and even the OPEC countries themselves—is the Eurodollar problem. Here is the way Greenspan sees the danger and its likely outcome:

> If inflation in the United States should continue (relative to rates in Europe and Japan) to a point where a cumulative disaffection with the dollar as a store of purchasing power erupts into an attempt at a massive diversification [into other currencies], either the dollar will fall abruptly, or worse, central bank support will create inflationary excesses of the support currencies.
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> A collapse in dollar exchange rates could create severe international financial uncertainty and retrenchment—and could trigger the bankruptcy scenario outlined above. . . .
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> With the world's central banks standing ready to flood the world's economies with paper claims at the first sign of a problem, a full-fledged credit deflation reminiscent of the 1930s seems out of the question. The real threat to the Western industrial economies is the inflation which would be triggered by an attempt to fend off the kind of deflation we had in 1929-1932.
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> The overriding mandate of the world's monetary authorities to prevent a credit deflation almost assures policy overkill at the first sign of credit stringency and falling prices. Deflation would be quickly aborted—to be followed shortly by accelerating inflation and economic stagnation. . . .

Thus, in today's political and institutional environment, a replay of the Great Depression is the Great Malaise. It would not be a period of falling prices and double-digit unemployment, but rather an economy racked with inflation, excessive unemployment (8 to 9 percent), falling productivity, and little hope for a more benevolent future.

When he gets to the end of his story, however, Greenspan shrinks from drawing what some readers might consider to be logical conclusions. What he has been talking about, he tells us,

> is still a low-probability outcome. There is a remarkable resiliency in the basic capitalist institutions which support most Western societies. Extraordinary shocks are required to undermine them. While I do not want to appear the protagonist for Pollyanna, I trust that in a hundred years Black Friday [October 29, 1929] will *still* be regarded as the beginning of the greatest economic upheaval in modern history.

In the absence of further elaboration, a skeptic could be pardoned for wondering what alternative scenario could accommodate the impressive array of facts which constitute the bulk of Mr. Greenspan's article.

Let me conclude with a few remarks about the cumulative impact of the economic developments we have been discussing on the mood and morale of the American political leadership.

First, you have to understand that U.S. hegemony in the global capitalist system—and indeed in the world as a whole—was by no means an unexpected outcome of the Second World War. By the end of the 1930s the American ruling class (if I may use that somewhat ill-defined expression) was badly demoralized. The New Deal under the leadership of Franklin D. Roosevelt had succeeded in defusing what could have become a serious threat to the capitalist system, but it was very far from restoring confidence in the future. With the coming of the war, however, this changed. It was quickly sensed that the United States would come out on top and that this would open the way to what Henry Luce called "the American Century." *All U.S. policies during the war were directed at planning for and realizing this perspective.* Above all, this would be the answer to the problems which the New Deal had not been able to solve in the thirties. At times American pronouncements, particularly those of Cordell Hull, Roosevelt's long-time Secretary of State and the chief architect of U.S. war aims, came close to spelling matters out in just these terms. As Gabriel Kolko wrote in his indispensable study *The Politics of War: The World and United States Foreign Policy, 1943-1945*:

> In May 1941 [i.e., six months before the United States entered the war] Hull publicly enunciated the "few and simple" "main principles" of American economic policy, principles that the United States did not essentially alter throughout the war. . . . "Extreme nationalism" could not be expressed in "excessive trade restrictions" after the war. "Non-discrimination in international commercial relations must be the rule," and "raw materials must be available to all nations without discrimination," including the careful limitation of commodity agreements affecting consumer nations, such as the United States. Lastly, in regard to the reconstruction of world finance, "The institutions and arrangements of international finance must be so set up that they lend aid to the essential enterprises and the continuous development of all countries, and permit the payment through processes of trade consonant with the welfare of all countries." (pp. 247-248)

And the following year, in July 1942, Hull explicitly included the missing ingredient in this prescription, the necessity for American hegemony. To quote Kolko again:

> The future required American leadership in the world economy, "the opposite of economic nationalism," or a new internationalism which many American allies feared was synonymous with American hegemony over the world economy. To the colonial nations Hull's often repeated words conveyed undertones of a new colonialism: "Through international investment, capital must be made available for the sound development of latent natural resources and productive capacity in relatively undeveloped areas." And the supreme role of the United States in this undertaking struck many allies as potentially damaging to their interests: "Leadership toward a new system of international relationships in trade and other economic affairs will devolve largely on the United States because of our great economic strength. We should assume this leadership, and the responsibility that goes with it, primarily for reasons of pure national self-interest." Exactly this realistic theme aroused anxiety among the allies. (pp. 250-251)

Regardless of these anxieties—experienced most acutely by Britain which understood very well that its own prewar system of imperial preferences was the chief target of American criticism—the United States stuck doggedly to its stated goals throughout the war period, using the enormous leverage over its allies' policies afforded by their desperate need for Lend-Lease aid. The main institutional bases of the new postwar international order were put in place at the Bretton Woods conference in 1944 when the end of the war was not yet in sight. And after their military defeat America's chief capitalist rivals, Germany and Japan, were duly integrated into the new structure. Only the Russians resisted, but their strength was so depleted by the end of the war that they could do little more than remain outside the system, adopting a passive attitude and leaving the initiative in global affairs to the United States.

These successes of the American ruling class in the international sphere had their counterpart at home. In order to carry through the reforms of the New Deal period Roosevelt needed a popular base combining workers, farmers, blacks, and ethnic minorities—classes and strata which had suffered most from the depression and which had the potential to form an independent political force moving more or less rapidly in an anti-capitalist direction. In the new situation which emerged after the war, all the leaders of American capitalism, regardless of their other differences, saw in this legacy of the 1930s a serious threat, perhaps not immediate but certainly in the long run, to their power and privileges. They therefore combined to launch a vast and unprecedentedly ruthless campaign of political and ideological repression which has come down in history under the name of McCarthyism. This too succeeded: the trade unions were first purged and then co-opted; radical organizing was in effect criminalized; and intellectuals were either frightened into silence or won over, by bribes or flattery, to the service of the new empire.

By the mid-1950s the new order seemed firmly established and to have found its fitting hero-symbol in the person of President/General Dwight D. Eisenhower. The mass media duly saluted what the late C. Wright Mills ironically labeled the American Celebration, and the intellectuals of the New Mandarinate triumphantly proclaimed the "end of ideology." The rulers of America surveyed the world and liked what they saw. Add that by then it had become an article of faith that Keynesian theory had given governments the power to control the business cycle—hence to prevent the recurrence of serious depressions—and you get an idea of the mood which permeated the U.S. ruling class as the decade of the 1950s wound down. The future looked secure; all the troubles of the preceding quarter century were gone and happily forgotten.

Now, after the passage of another quarter century, those troubles are back again, right where they left off in 1939. Stagnation, this time compounded by inflation. The world, allies and clients as well as enemies, apparently slipping out of control. There is not even the ability, promised by Keynesian theory, to manage the ups and downs of the business cycle. The American Century, it seems, is falling apart long before the halfway mark.

If we are to understand what is happening in the United States today, we have to try to gauge the impact of these shattering revelations on the state of mind of our rulers. From supreme self-confidence, they have been suddenly plunged into doubt and confusion, even panic. What went wrong? What can be done? Where do we go from here?

These are the questions, but quite literally no one who counts for anything in the United States today has any clear or coherent answers. Under the circumstances it was probably inevitable that there should be a sort of instinctive falling back on the seeming lessons of recent American history. And unfortunately—for us in this country as well as for the rest of the world—the chief of these lessons is that war and war preparations, whatever else may be thought of them, provide a quick fix for economic troubles. That has been the experience of all the wars of this century, most markedly of course in the case of the two world wars.* Under the circumstances it is not at all surprising

* The United States was slipping into a severe depression on the eve of the First World War. Unemployment stood at 8 percent of the labor force in 1914 and 9.7 percent in 1915, dropping to 1.4 percent in 1918. Similarly, the unemployment rate was respectively 19 and 17.2 percent in 1938 and 1939 at the end of the Great Depression, thereafter plunging to 1.2 percent in 1944. The Korean and Vietnam wars show a similar pattern though in much milder form. The rate was 5.6 percent in 1949, the year before the outbreak of the Korean War, declining to 2.7 percent in 1953, the last year of fighting. Dating the Vietnam war is more difficult, but averages for the first and second halves of the decade of the sixties illustrate the point: for 1960-1964, the rate was 5.1 percent, and for 1965-1969 it was 3.4 percent.

that U.S. policies, both domestic and international, have been moving in an increasingly militaristic and bellicose direction in the last few years. To be sure, the defeat in Vietnam, ending an involvement which had never been popular and which as it dragged on aroused strong anti-war feelings in large sections of the American people, obliged the political leadership in Washington to soft-pedal interventionist foreign policies for a time. But in retrospect we can see that this was a tactical maneuver, not a change in basic strategy. As the memory of Vietnam faded, so also did the new look of U.S. policy. All of this long antedated the taking of the hostages in Iran and the Soviet invasion of Afghanistan. What those crises did was to reveal the real state of mind of America's political leadership, generating something close to a war psychosis in Washington by the spring of 1980 and definitely re-establishing cold war as the dominant mood of international life.

If the foregoing analysis is correct, we have to see this reversion to interventionism and cold war on the part of the United States not as a temporary aberration, but as the beginning of a new phase in the post-Second World War history of the United States and the world.

How long will this phase last? It might of course come to an end in a new world war—a very real possibility about which, however, there is not much that can be usefully said. Otherwise we must expect that it will last until one of two things happens: (1) Either conditions emerge favoring a new wave of capitalist expansion which could restore to the U.S. ruling class a reasonable sense of security and self-confidence. This too, as the history of capitalism shows, is a real possibility, though I see no signs of its happening in what Veblen used to call the visible future. (2) Or the United States learns to control its economy in ways that bourgeois ideology and social science have as yet not even been willing to contemplate, though this may change as the general crisis of the system drags on, and especially as the consequence of a particularly severe financial "crisis within the crisis" of the kind alluded to above. Socialists are of course convinced that a controlled economy producing for social need rather than private profit is feasible and would be in the best interests of the working people of the country, who constitute the great majority of its population. But the working people themselves are not now convinced of this, and whether or when they will be is quite unpredictable.

In the meantime those of us who understand the terrible dangers inherent in the new turn history has taken need not simply sit back and await disaster or deliverance. Perhaps most important at this stage is to gain time—time for the full seriousness of the situation to sink in, for passions to cool, for wise counsel to be voiced and heeded. To make this possible we urgently need to convince more and more Americans of all classes that the world has changed, that while in the past war brought economic prosperity, today even a non-nuclear war is more likely to exacerbate all the ills from which we already suffer—shortage of oil and other raw materials, inflation, unemployment, urban chaos. And we need to convince America's friends and allies abroad that they can best serve their own interest, as well as the interests of the rest of the world, by firmly refusing to cooperate in any way with new warlike adventures.

FREE TO CHOOSE

Laws and governments may be considered in this and indeed in every case as a combination of the rich to oppress the poor, and preserve to themselves the inequality of the goods which would otherwise be soon destroyed by the attacks of the poor, who if not hindered by the government would soon reduce the others to an equality with themselves by open violence.

—Adam Smith, in a speech made in the 1760s
(*Lectures on Jurisprudence,* ed. R. L. Meek and others, Oxford Clarendon Press edition)