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Some Economic Illusions in the Labour Movement

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Some ECONOMIC ILLUSIONS in the Labour Movement

by

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I. THE ILLUSION OF TWENTIETH CENTURY SOCIALISM

Since the year 1955 the Labour Party has been engaged in an intensive examination of every aspect of policy. A round dozen of policy statements have been issued, which have now been boiled down to a General Election programme. The results of this intense examination have been summarised by Mr. C. A. R. Crosland:

"Broadly one may say that the revisionist period is over; that is, the business of giving the Labour Party a policy attuned to mid-twentieth-century conditions is more or less complete. On the theoretical plane this period began with 'New Fabian Essays', and continued with analytical work by Mr. Strachey, the Socialist Union group, and myself. On the practical plane it culminated in the recent series of Labour Party statements, all bearing the marks of Mr. Gaitskell's personal influence. British Socialism now lays less stress on old-style nationalisation and detailed physical controls and much more on economic expansion, and social equality; while its pristine semi-Marxist analysis of capitalism has given way to a more subtle theory of the post-capitalist society.

"The new emphasis, though still encountering some psychological resistance among the local activists, is accepted not merely by the party leadership but by most left intellectuals, at least those in touch with public affairs. I may add that the party has been given insufficient credit for this major realignment of its outlook." (*The Spectator*, 24 October, 1958.)

Now of course it is necessary that all political parties should have a policy attuned to mid-twentieth-century conditions. But this new Labour Party policy in the main has been formulated by the simple process of ignoring some of the major conditions of the mid-twentieth century.

Reading the policy documents, one can only come to the conclusion that their authors do not regard the rapid economic growth of the Soviet Union and China and their tremendous educational advance as having any interest for Socialists in Britain. Yet surely this rapid growth, which in both cases started from a situation of extreme economic backwardness, reveals the terrific dynamic of socialist planning. The fact that the authors have chosen to ignore this suggests that they are prepared to turn a blind eye to any developments of a socialist character in the mid-twentieth century which do not fit in with their prejudices.

The authors cannot quite ignore the advance of the colonial liberation movement, and indeed devote their studies to it. They are concerned with the organisation of somewhat meagre assistance to the more backward colonies and ex-colonies. It does not strike them that some of those colonies would be in a better position to save themselves if the imperialists ceased to exploit them, or indeed if imperialist attempts to mitigate the crisis in Britain did not have the effect of deepening the crisis in the colonies; for example, the dear money policy, devised in order to save the pound, resulted in stagnation in British industry and a falling demand for colonial raw materials, leading in turn to a fall in their prices. As a result of this policy the British capitalist economy found its terms of trade improving to the extent of £150 million per annum—a windfall gain at the expense of the colonies. Compared with that fact, how meagre are the proposals for assistance in development.

It never seems to have entered the minds of the Labour experts that the fact that the Soviet Union is able and willing to help the ex-colonial countries opens the way to a non-capitalist development, which is more important than any assistance or loans from capitalist States aimed at stimulating colonial development on capitalist lines.

In all the policy documents the existence of a capitalist offensive directed against the working class, expressed most notably by the coming to power of de Gaulle in France, is passed over in complete silence. That the British Tories, for example, are pursuing reactionary policies aiming at driving the working class back, is played down. The Tories are represented as wrong, stupid or out of date—never as malevolently reactionary.

So our basic complaint is not that the Labour Party has attuned its policy to the conditions of the mid-twentieth century, but that it has produced a policy which appears to be completely insulated from those conditions.

Readers will note that society in Britain today is referred to by Mr. Crosland as post-capitalist society—that is, as a society that has already developed beyond any stage that is recognisably capitalist. We are told, for example, that governments and political parties have now at their disposal a new economic theory—elaborated by the late Lord Keynes and his disciples—which not only enables them to understand the workings of the economy better than ever before, but which also enables them to devise policies for eliminating social evils, such as mass unemployment, which previous generations had believed to be incurable, at least within the framework of the capitalist system. This theory, it is confidently asserted, is not only immensely superior to all previous capitalist theories, but it has also definitely superseded Marxism with its critique of capitalist society.

It follows from the general analysis of the Keynesians that if governments can maintain full employment and eliminate other major social evils, within an economic framework in which the bulk of industry is owned by large capitalist firms, then arguments in favour of taking over these firms by a socialist government are weakened.

So socialism, Mr. Crosland insists, is a series of moral ideals about freedom, equality, etc., which have to be translated into reforms, in a society in which the majority of industries still function under private ownership. Anyone who holds these moral ideals, and strives to get them embodied in reforms, can on this reasoning claim to be a socialist.

Some right-wing theorists also insist that we need a new conception of trade unionism to chime in with a society which they allege has been transformed out of all recognition since 1939.

We believe that these are illusions which are always prevalent in periods of comparative prosperity in capitalist society; that this prosperity in recent years has had little to do with specific government policies; and that what we have been living through has been a prolonged boom due to post-war circumstances that are now beginning to pass away.

Far be it from us to insist that the working class has not improved its position as compared with the period before the Second World War. But we do insist that these improvements, now under attack by the capitalists, do not add up to a new social order—"this new mixed economy" the Labour Party calls it. Some of the substantial social reforms were achieved when the ruling class in Britain (which had discredited itself by its encouragement of fascism right up to the beginning of the war) was badly shaken by the popular upsurge, which resulted in the post-war Labour government. But social reform is now at a virtual standstill and the Labour Party is informing us that a new round of social reform must be preceded by an intensive bout of capital development throughout British industry—State and private alike.

Really, it would have been an all-time social miracle if the working class had not achieved some social gains. A major part in the victory over fascism had been achieved by a socialist great power—the Soviet Union. Socialist governments were arising in a number of East European countries where fascist or near-fascist governments had previously ruled. Major colonies were throwing off imperial tutelage. The Chinese Revolution (soon to be victorious) was advancing. Is it any wonder that the shaken ruling class in the major capitalist countries, faced with the working class and large sections of the middle class demanding a new deal, were prepared to make concessions?

What did these concessions really amount to? The share of wages in the national income increased from 37 per cent (in the depression year 1938) to 47 per cent (in 1948), and this position has been more or less held down to the present day. Full employment enabled the workers, in industries where earnings were low (mining, agriculture and cotton) to push up their earnings, and a shift of employment from low-paid jobs (distributive trades) to high-paid jobs (engineering) helped to do the rest. In regard to the social services, and contrary to popular belief, enough is collected from the workers in taxation to pay not only the whole cost of the social services which they enjoy but provide an additional £600 million to finance other forms of State expenditure. The rich can claim that they are taxed much more heavily than they were before the war. This is true, but the extra revenue goes to finance a much higher military expenditure and to service a much larger war debt. The supporters of capitalism cannot claim, therefore, that it is the heavy taxation of the rich that finances the social services. The most that they can claim is that if the capitalists were taxed less, the workers would be taxed more to finance military expenditure at its present level.

This is true, but it does not sustain the proposition that there has been a substantial redistribution of income, from the rich to the poor, through the medium of the social services. We therefore deny that the concessions wrung from capitalism add up to a social order basically different from pre-war monopoly capitalism. It should be noted in passing that as time goes on the amount of taxation extracted from companies (both in real and in money terms) decreases, leaving the companies with more profits after tax. In 1952 the gross total profit of companies operating in the United Kingdom was £2,475 million, of which the State took £982 million, leaving £1,493 million. In 1955 trading profits were £3,399 million, taxation £923 million, leaving £2,476 million. In 1957 trading profits were £3,810 million, taxes £925 million, leaving £2,885 million. The reactionary trend is obvious.

The right-wing proposition that monopoly capitalism can be controlled to secure increased freedom, security and prosperity to the mass of the British people is demonstrably false, as we will show.

Regrettably, we have no space to deal with the vast problem of Labour and the Empire.

We will confine ourselves to the theories of Right-wing Labour in the following order: The Doctrine of J. M. Keynes; The Theory of the Changed Character of Large Firms; The Policy of State Shareholding; The Policy of Managed Capitalism (as outlined in *Plan for Progress*) in relation to economic expansion, combating slumps and preventing inflation; finally, we will show where reformist policy is leading us and will outline the socialist alternative. The fight for peace is the subject of another booklet in this series.

II. THE ILLUSION OF FULL EMPLOYMENT

Lord (J. M.) Keynes, acclaimed by both Tory and Labour parties, was the economic theorist of the General Crisis of Capitalism. His fame rests on the incorrect belief that he discovered ways and means of abolishing mass unemployment—the central plague of capitalism—without in any way interfering with the foundations of the system itself.

The capitalist economic teaching ruling in Britain for many years held that capitalism was a system which naturally tended to move towards full employment. It might be thrown off its course temporarily, but recovery was swift and it always sought to reach a balance at a level of full employment. Now this alleged law was certainly not true of the British capitalist economy between the wars. There were, true enough, fluctuations in employment but they never reduced unemployment much below the million mark in the twenty-year period between the wars. If there were forces tending to full employment inherent in the capitalist system, they were not functioning in Britain between 1921 and 1940.

The theory that capitalism always tended to move towards a condition of full employment was based on what was known as "the law of markets", expounded by the nineteenth century French economist, J. B. Say.

This law was based on the proposition that capitalist production tends to create its own market as it develops. The wages and salaries which are earned together with the rent, interest and profit which are appropriated by the capitalists are available to buy the goods which are being produced, and so there need never be a general over-production of goods that the market could not absorb. True, a single capitalist firm could miscalculate and find itself with goods which the market did not want; but that was purely a local sectional mishap. The whole system could never get into a state of over-production.

After a series of studies lasting over a period of thirty years Keynes came to the conclusion that Say's so-called law, as far as it denied the possibility of over-production, was wrong. This was in its way a new discovery for *capitalist* economics. But fifty years or so previously Karl Marx had made the same discovery, which became an integral part of the Marxist theory of economic crisis. Of course, if everyone in receipt of wages, salaries, rent, interest and profit spent them immediately, Say's law would have been plausible. But in real life this is not so. There could be quite an interval between a capitalist realising his profit and spending, on the extension of his business, that part not devoted to his own personal consumption.

Marx dealt with this in various passages in *Capital*:

> "Nothing can be more childish than the dogma that because every sale is a purchase and every purchase a sale, therefore the circulation of commodities implies an equilibrium of sales and purchases.
>
> "If this means that the number of *actual* sales is equal to the number of purchases it is mere tautology. But its real purpose is to prove that every seller brings his buyer to market with him. Nothing of the kind.

"The purchaser has the commodity, the seller has the money, i.e. a commodity ready to go into circulation at any time. No one can sell unless someone else purchases. But no one is forthwith bound to purchase because he has just sold. . . .

"If the interval in time between the two complementary phases of the complete metamorphosis of a commodity becomes too great, if the split between sale and purchase becomes too pronounced, the intimate connection between them, their oneness, asserts itself by producing a crisis."

The fact that there is such a gap between sale or purchase, or between the receipt of incomes by the capitalists and these incomes being spent, creates the possibility of crises (*which is quite a different thing from causing them*) within the capitalist system. If due to certain circumstances the capitalists withhold part of their income from new productive investments, then there is a break in the reproduction of social capital—in other words, a crisis.

The supporters of Say's law argued that this could not possibly happen. If any substantial body of capitalists did not use their profits to expand production, some other body of capitalists would. For the capitalists not using their savings deposited them in a bank or other financial institution and there they were available for loan to capitalists who were bent on expansion. So if the capitalists did not invest in expansion on their own account, there were other capitalists ready to borrow their money and do it.

In 1928 and 1929 Lloyd George and the Liberal Party were engaged in a campaign under the slogan "We Can Conquer Unemployment". They advocated that the government should raise loans and use them in financing work schemes such as the development of the telephone service and the reclamation of the land. The Treasury, at the instigation of the Tory government of Stanley Baldwin, issued a memorandum to the effect that this was perfectly useless. No doubt the loans could be raised and devoted to the public works in question, thus providing some employment. But they would not create *extra* employment. For the government investment in public works would be at the expense of investment in private industry, more would be employed on government schemes and less in private industry.

If, however, money saved by the capitalists was not necessarily invested in capitalist business in some form or another, then there were resources which could be mobilised by a government loan and used to finance work schemes, and this need not reduce the amount available for investment in private capitalist industry. This, Keynes contended, was the case.

Looking at it from another angle, if capitalist businesses could save part of their income, without this being invested directly or indirectly in business developments, then the various acts of saving would lead to a reduction in the demand for goods and if they took place on a sufficiently large scale this in turn would lead to unemployment. For the portion of income that was being saved was being used to demand neither consumer goods nor capital goods.

When Keynes by a complicated argument had disposed of the idea that the capitalist financial mechanism guaranteed that money saved would necessarily be spent on development in some favourable private or State enterprise, he, in effect, disposed of the theory that capitalism by its very nature tended to move to a condition of full employment. Indeed, the capitalist system could for years, as was the case between the wars, remain far below the full employment level. If private capitalism had no means of overcoming this stagnation then the State, which Keynes regarded as an impartial body standing above the classes, must take it in hand. If the effective demand for consumer goods and services was not sufficient to call for the employment of all workers (except those unemployed for short periods passing between one job and another), then the State could help in two ways. It could take steps to increase the demand for consumer goods by measures designed to increase the purchasing power of the people, such as increased pensions and increased children's allowances. (But not, present-day Keynesians emphasise, by increased wages; for this, they say, would increase industrial costs and would make goods more difficult to sell.) Or it could induce the capitalists, by tax concessions or subsidies, to engage in more ambitious schemes of capital development, or it could engage (though Keynes regarded this as a last resort) in such schemes itself. Capitalism by itself could not generate full employment, but capitalism assisted and regulated by the capitalist State could. Keynes did not mind what he called partly wasteful expenditure if it increased employment.

"If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines, which are then filled up to the top with town rubbish, and leave it to private enterprise on the well-tried principles of *laissez faire* to dig the notes up again, there need be no more unemployment, and, with the help of the repercussions, the real income of the community and its capital wealth would probably become a good deal greater than it actually is. *It would indeed be more sensible to build houses and the like, but if there are political and practical difficulties in the way of this the above would be better than nothing.*" (Italics ours.)

"Pyramid building, earthquakes, even wars may serve to increase wealth if the education of our statesmen in the principles of the classic economics stands in the way of anything better." (*General Theory of Employment, Interest and Money*, p. 129.)

The latter sentence has at least been grasped by the imperialists. The huge military expenditure of the United States has been an essential feature in maintaining employment in that country. Whenever this expenditure has receded, as in 1953-54 and in 1957-58, it has helped to create a recession. At this moment (winter 1958) the government of the U.S.A. has enormously increased military expenditure as one of the means of lifting the economy out of its crisis.

To the question of "Where is the money to come from?" the Keynesian answer was that the State should, as a means of injecting increased demand for goods into the system, run a budget deficit and pay out for the goods and services which it bought more money than it received in taxes. If it was objected that this would cause inflation, Keynes's retort was that it wouldn't if there was a great mass of unemployed labour and factories were working below capacity. (It should be noted that in 1958 the United States government ran a colossal budget deficit as an anti-crisis measure.) Later, when a high level of employment was achieved, the danger of inflation expressed particularly in rising prices would emerge. Instead of running a budget deficit it would then be necessary to achieve a budget surplus, by raising more in taxes than was being paid out.

It would be useless to deny that Keynes started some "new thinking" amongst bourgeois economists. He forced them to face the problem of mass unemployment. He refuted the arguments of those who opposed State intervention in the monopoly capitalist economy. He apparently justified policies like the New Deal of Roosevelt which had hitherto lacked a theoretical basis.

More than that he did not do. He did not, despite right-wing leaders' assertions to the contrary, evolve a policy which would eliminate booms and slumps from the monopoly capitalist economy and keep it always on an ascending line of greater production and improved living standards.

We are now (1958) in the midst of the first post-war economic crisis which has spread to every section of the capitalist world. The Keynesian remedies have not so far worked.

It is one thing to say that the main business decisions can continue to be made by the capitalist groups in industry and if a slump occurs the State can be compelled to do something to fight it. It is an entirely different thing to say that the main decisions can be left in capitalist hands, but the State can so co-operate with the capitalists as to ensure uninterrupted expansion, full employment, rising wages and steady prices. This is the totally unjustifiable theoretical *jump* that the Labour leaders are making, and there is nothing whatever in the post-war experience—particularly of the experience of the Labour Movement from 1945 to 1951—to justify it.

Keynes's theory outlined what he believed were the factors determining the level of employment, and his model was essentially that of a static capitalism. He left no worked-out theory of why the cycle of boom and slump should take place, let alone how to detect when a boom was breaking. Yet this is surely necessary if the capitalist State is to intervene in time to prevent slumps and at other times to refrain from pressing new projects on an economy that is in danger of being overloaded (with the inevitable consequences of increasing prices) as a boom develops. Even if he had developed a clear theory of boom and slump, it would have been of limited use. For each cycle, while having general features, has its own peculiarities which defy prediction and which are only grasped subsequent to their appearance. The correct timing of State intervention is virtually impossible and so it has a muddled rule-of-thumb character which does not encroach on the growing privileges of the monopolists. This intervention, when undertaken under popular pressure, is better than letting things drift—but it has no relation to the maintenance of full employment and uninterrupted expansion.

In Keynesianism there is no grasp of the class structure of the monopoly capitalist system, of the everlasting fight between the workers and the monopoly capitalist groups in industry. The very existence of such struggles is ignored in this theoretical system.

Instead of a struggle between contending classes around the question of the division of the products of industry, or the question of political power, we have a practically omnipotent State, manipulating economic aggregates like consumption, investment, etc., so as to maintain full employment.

Here is Mr. Strachey's description of the Keynesian State, which is much more revealing than Mr. Strachey guesses: "Not only do the Keynesian controls involve continual and subtle balancing acts on the part of the planning authorities in order to offset the continual shifts in the economic climate, but they also and necessarily cut across the affairs of almost every great 'interest'. They cut across the interests of the capital goods industries, the farmers and the trade unions, the part of the population with fixed money incomes, the part of the population with variable money incomes, now favouring one interest, now injuring another, as the cause of overall stability demands." (*Contemporary Capitalism*, p. 249.)

Surely this is a picture of the State as God. Note that it is above all interests and can favour them at one time and act against them at another, all in the interest of stability. There is no ruling class with vested interest in control of this positively supernatural State, nor do its higher officials appear to have any class affiliations. Such a State will never be seen or experienced in this vale of tears. It is a dream State, operating in a dream world.

Now it is one thing for a theoretically impartial and omnipotent State to influence aggregates like consumption and investment in an abstract model. It is a different thing for a real State with a real class basis to try to influence the policy of real industries in all their everyday complexity. On the eve of the American recession the monetary authorities were worrying about too much consuming power and trying by various devices to diminish it. At that very moment, in spite of the apparent ample consuming power, people were ceasing to buy the new automobiles, the new and varied durable consumer goods, and the shock was being transmitted down the line to the basic industries. There was what looked to be a whole lot of effective demand in general, but it had dried up in relation to specific industries, and it was from those industries that the recession spread. It was soon seen that it was not so easy to put things right by manipulating generalised central controls.

Keynes had another theory, which has now entered into Labour Party thinking: namely, that the large capitalist firm has tended to "socialise itself"—to think less of extracting the maximum profit and more about acting responsibly in the public interest. This is also a favourite theme of U.S. monopoly capitalism, and *Industry and Society* quotes A. A. Berle and Peter Drucker, two apologists for American big business, in support of this proposition.

So we get a picture of a world where there is no struggle between the classes, no exploited and no exploiting classes, no increasingly sharp divergence of class interests, but a world in which an impartial State and great monopoly firms, becoming ever more socially conscious, work together for the public good. This world of J. M. Keynes, A. A. Berle and Peter Drucker is certainly not the world of Karl Marx or the present-day Communists, neither is it the world that the British working class and middle class are battling in every day. Let us, however, look closer at the theory of the large firm, which is, along with Keynes's theory of employment, one of the pillars of the theoretical system of the present-day Right-wing Labour leadership.

III. THE ILLUSION OF LARGE-FIRM BENEVOLENCE

The theme of the large firm or combination of firms and their relation to the banks has always had an important place in socialist literature. It was Marx who first traced their evolution in capitalist society. He pointed out that in the early days of capitalist society, competition led to the ruin of handcraftsmen and peasants on a mass scale, but as capitalism developed, it was the smaller capitalists who were ruined by the large.

"The expropriation of the great mass of the people from the soil, from the means of subsistence, from the means of labour, this fearful and painful expropriation of the mass of the people forms the prelude to the history of capitalism."

When capitalism has reached a certain stage of consolidation a new expropriation takes place, not that of the peasant