Heilbroner BEYOND BOOM AND CRASH

Beyond Boom and Crash

Books by Robert L. Heilbroner

Beyond Boom and Crash
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for my Shirley

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Beyond Boom and Crash

I

ANOTHER WORLDWIDE crisis of capitalism is upon us. Why it has appeared and what consequences it portends for the economic system in which we live are the questions I wish to consider here. But first, we should take note that it is *another* crisis of capitalism. From its earliest days, capitalism has always been as critically ill as it has been intensely alive. "Convulsions" and "revulsions," as the older political economists called them, "crises," as Marx identified them, "recessions" and "depressions," in modern economic language, have been as prominent features of capitalist development as its dizzying succession of technical advances, its enormous material productivity, its irresistible global expansion. So there is nothing new in the fact of crisis. Indeed, by comparison with some past crises, above all the catastrophe of the 1930s, the present seizure has been mild.

Nonetheless, it *is* a crisis, and, as always before, it has brought a sense of ominous foreboding. If the economic history of capitalism is one of boom and bust, its psychological history is one of alternating confidence and despair. Even a relatively mild crisis, where social disruption is minimal, brings specters of collapse, revolution, the end of the world. Hence this is a good time to look into the etiology of capitalist crisis as a kind of chronic disease of the system and to venture whatever prognosis seems possible.

Economists, like doctors, should begin with case histories. In the present instance, there is no doubt that the patient seemed in extraordinarily good health prior to his attack. The years from 1950 to the early 1970s were the longest period of growth that capitalism had ever experienced, almost a quarter century of nearly uninterrupted expansion. Moreover, the expansion was shared among all capitalist nations, without exception. Germany and Japan enjoyed rates of economic growth that doubled their real incomes every seven years. France shook off a history of chronic stagnation to emerge as a modern industrial power. Italy managed to overcome horrendous unemployment and dislocation to achieve a dazzling, if uneven, prosperity —from "Bicycle Thief" to "La Dolce Vita" in twenty years. Sweden surpassed the per capita income of the United States. And even our own country, weighed down with the costs of a terrible war and a near-rebellious young and black population, managed to attain an entirely new level of material well-being. By 1970 the average household enjoyed an income about three-quarters larger in real terms than in 1950.

Then came the crisis. Beginning in some countries in late 1973, in others during the following year, the long trend of growth came to an abrupt halt. In the United States, output declined by nine percent from 1974 to 1975. In Germany and France, production fell by a percentage point less; in Italy and Japan by a percentage point more. In Canada, Sweden, Norway, Denmark, the Netherlands, Austria, Australia, Hong Kong, Mexico, the Union of South Africa, Israel, Spain, and Portugal—in short, in every nation with a predominantly capitalist economy—the crisis appeared, varying in extent from one to the next, but visible in all.

The extent was never of panic proportions—in the Great Depression in the United States, output fell by nearly fifty percent from its peak in 1929 to its nadir in 1933. Nothing resembling such a collapse attended the crisis of the early 1970s. The sharpest decline was probably a 13 percent slide in Japan from 1973 to

1975. Nevertheless, the crisis brought its toll. In the United States unemployment rose by three-quarters between 1973 and 1975, far short of the eightfold increase during the Great Depression, but enough to disemploy eight percent of all "experienced" workers and to create pockets of unemployment that ran up to ninety percent of black adolescent job seekers in some ghetto areas. In Europe the problem was less severe because the European boom had utilized the labor of imported mercenaries, mainly from Yugoslavia, Greece, and Turkey. When the boom stopped, these recruits to the labor army were shipped home in large numbers. Nonetheless, production fell sufficiently so that unemployment among native Germans and Frenchmen and Britons became a social and political issue for the first time in twenty years.

Following that global downturn, almost all capitalist economies have recovered to a considerable degree. Japan reversed its decline within a year. By early 1978, in most of Europe, production was about four or five percent above precrisis levels; only England failed to regain its former peak. In the United States, output was by then about 7 percent above precollapse levels, and unemployment had fallen by about a fifth from its peak, although it was still seriously worse than in 1973. In Europe the unemployment issue remained live, but not charged. Only in the peripheral countries, to which the "guest workers" returned, was it a heavy burden, but these were countries with relatively large rural work forces and with networks of extended families, all of which absorb and "hide" unemployment.

Thus there is a good deal of evidence that the crisis that began in 1973 has been weathered and that a resumption of the upward trend, although perhaps at a somewhat slower pace, has already commenced. Yet a sense of an unliquidated problem lingers on. The price of gold continues to be high, testimony to the beliefs of investors around the world as to the unreliability of stocks and bonds and conventional money. The dollar has become a currency that foreign banks or governments will no longer hold in unlimited amounts. Stock exchanges in every nation are well below their precrisis peaks. Books like the *The Crash of '79,* prophesying complete financial breakdown, exert a fascination that suggests and perhaps breeds belief. The talk in financial circles is of another crisis ahead; of long-term structural problems that are barely recognized, much less overcome; of a European community that is fighting demoralization; of an American economy unable to generate momentum; of an inflation that no one even pretends to be able to manage; of the need for a "real" depression to cleanse the system—provided that it does not do it in.

How much truth there may lie in these dark forebodings is a matter we shall consider in due course. But first we must complete the patient's history. For unlike most crises in the past where the precipitating factor is beyond discovery—we know, of course, that the stock market crash ticked off the Great Depression, but we do not know what precipitated the crash—we can identify the immediate cause of the 1973–74 "revulsion." This was the sudden increase in the price of oil by the Organization of Petroleum Exporting Countries (OPEC) in the fall of 1973, after the Israeli-Arab conflict broke out. Within a few months the price of oil quadrupled, and the capitalist oil-using nations found themselves facing an annual bill for petroleum in excess of $100 billion.

The consequences were a shockwave of alarm. "A landslide of immense proportions is rumbling downhill toward most of the oil-consuming industrialized world," wrote *The Economist,* ". . . a landslide capable of breaking the financial system and the economies of several major countries." Unquestionably, oil shock triggered the initial crisis. But the continuing high price of oil is by no means responsible for the oppressive mood that remains. The Arab nations did not, as feared, sit on their immense oil proceeds, but exerted every effort to recycle the money back into Western hands. A sheer physical shortage of oil, of the kind that caused lines at gas pumps during the brief period of the oil embargo, was never repeated; in fact, by 1978 there was a surplus of oil looking for buyers at the high prices maintained by the OPEC cartel. More evidence that oil was not responsible for the refusal of the crisis to dissipate itself could be seen in the quick recovery of Japan, the most vulnerable of all the oil importers,