

DYNAMICS OF THE MIXED ECONOMY

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I

THE THEORY of the "mixed" or "dual" economy is Keynesian. This type of economy, implying government monetary and fiscal intervention in the market mechanism, is still very much with us; but its theory, or ideology, is in crisis. Quite frequently the question is raised whether or not Keynesian economics is "outdated," and demands are heard for either a "meta-Keynesian" approach to economic problems or for replacing the "conservative" with a more "radical" version of Keynesianism. These laments are not the outcome of any recently noticed internal inconsistencies in Keynes's theory but of the relative stagnation of the mixed economy and its apparent inability to solve the problems of adequate investment and employment. To find an answer to the question of what went wrong, it will be useful to deal briefly with the rise and early success of the Keynesian economy.

Keynes, being a kind of neo-mercantilist, was fully aware that government has always had a hand in the national economy. It was merely a question of more or less, and *laissez-faire* meant less. War and revolution, however, brought with them increasing government control. Keynes's *General Theory of Employment, Interest and Money* was a reaction to the "war socialism" practiced by governments of the warring nations during the First World War, to the Bolshevik "experiment" in state ownership, and to crisis conditions in the wake of the war which became worldwide with the collapse of America's prosperity in 1929. After that, unemployment was the great social problem and its immediate cause was recognized in a general decline of investments. It occurred to Keynes that the problem could be solved through appropriate government measures.

Whatever the explanation for the lack of investment and ensuing unemployment, it seemed necessary to increase the former in order to end the latter. For Keynes, investment was an act of future consumption, and consumption itself the end of all economic activity. He found that, due to a "psychological law," consumption as a percentage of income decreases with economic expansion, and that in a "mature" society the "propensity to consume" is too weak to bring forth an "effective demand" able to secure full employment. But ways were still open to increase economic activity through government-induced production and consumption.

To increase production through investment, the inducement to invest must be stimulated by greater profitability through lower interest rates and, perhaps, monetary inflation. To raise the propensity to consume, public works and welfare policies are required. Idle money could be borrowed by governments for financing public undertakings that exceeded their taxing capacities. Deficit financing did not really contradict the prevalent notion that a balanced budget was necessary. There was no need to achieve a balance annually; the surpluses of prosperous years could compensate for deficits acquired in depression years. The theory of the centrally and consciously stabilized economy reduced itself, finally, to *techniques* of income distribution—affecting both the present and the future—by which a state of unemployment could be changed into one of full employment.

Inflation, deficit financing, and public works have, of course, been applied in times long past but without the theoretical embroidery provided by Keynes. They were not only independent of Keynes's particular reasoning but their effects were "reversible" and they could be employed for ends different from those suggested by Keynes. Indeed, Keynes himself found that fiscal and monetary manipulation could be used for decreasing instead of increasing the "propensity to consume" and for increasing instead of decreasing "savings" in order to finance such large public undertakings as the Second World War. In this "inverted" form, Keynesianism proved to be a full "success" in contrast to its "failure" during the preceding depression years.

Aside from the factor of ideology, it is now generally acknowledged that it is a function of government to maintain a socially

satisfactory level of economic activity. Little doubt is displayed that government intervention in the Keynesian sense has solved most of the economic problems that beset the pre-Keynesian world. If there has been a decline of new investment and a consequent growth of unemployment, this means only that still more government-induced production and consumption are required to lead the economy to a fuller use of its productive resources. But these proposals are made without regard to their consequence and without consideration of the real character of the mixed economy.

II

In order to understand the dynamics of the mixed economy it is necessary to know its working mechanism. The mechanism is provided by government expenditures which counteract the movement from prosperity to depression. The economic role of government seems to divide the whole of the mixed economy into a "public sector" and a "private sector." Actually, of course, it is just one economy in which government intervenes, for it is not government ownership but government control which characterizes the mixed economy. There is, of course, in addition, a great and growing amount of direct ownership in the mixed economy, just as there was government ownership in *laissez-faire* capitalism. But no matter how self-supporting, self-liquidating, or even profitable some government undertakings are, government still requires an increasingly larger portion of privately produced national wealth.

The private sector of the economy, to use these familiar terms, differs from the public sector in that the latter is basically non-profitable, the former, profitable. The private sector expands of its own accord, the public sector largely at the expense of the private sector. As long as the growth of the private sector is faster than that of the public sector, the growth of the latter merely reflects the general growth of the economy. It is quite otherwise when the public sector develops faster than the private sector.

Generally, government does not produce for the market. It merely mobilizes private savings in order to utilize privately owned means of production which, in turn, employ labor that would otherwise be idle. The greater national product brought forth in this manner will impair the profitability of private capital, not of par-

ticular capitals, to be sure, but in general. It is private production which must yield the taxes necessary to cover government-created "demand" and to finance its borrowings.

It can be argued, of course, that, apart from war, government increases its economic activity only because private production begins to slacken and that, therefore, its profitability remains unaffected since business would not be any better without government intervention. This may well be so, but nonetheless, taxes and the servicing of the national debt must come out of the private sector of the economy and, to that extent, deprive this sector of part of its present and future income. Only if the private sector income rises proportionally faster than the national debt and tax burden, and only if it owes this rise to the "pump-priming" activities of government, can it be said that government-induced production serves private capital as well.

As far as Keynes was concerned government intervention in the economy could range from manipulated interest rates to the usurpation of entrepreneurial functions by government. To compete directly with private capital for the available market demand would, however, lead to the gradual displacement of private enterprise by state enterprise and this it cannot be expected to do in a society in which government represents the free enterprise system. Lowering interest rates may, or may not, foster capital investment but this has proven insufficient in periods of stagnation. Increasing taxes for expenditures above the given market demand merely distributes the available income and does not guarantee an increase of employment and production. It may well have the opposite effect, even if income distribution by way of taxes should increase the propensity to consume. While consumption may thus be increased, the inducement to invest may be still further weakened.

Quite generally, then, capitalists propose exactly the opposite procedure—a reduction of taxes to increase the inducement to invest. If their wishes are granted their incomes will be larger, but even this may lead not to a faster rate of capital formation but merely to a greater mass of idle capital. There is no certainty that tax policies, affecting either the propensity to consume or the inducement to invest, will actually lead to an increase of national production and full employment. There is the possibility, however,

that employment and production will increase when the government pays out more than it receives by way of taxes, that is, through deficit financing.

Money may be saved instead of being invested or consumed. A low rate of investment may indicate the existence of such savings, a condition Keynes called "liquidity preference." The government can borrow these savings and increase its expenditures and, as a result, step up national production and consumption. This process yields profits to some capitalists and interest to others; its financial manifestation is to be found in the national debt and in an increasing ratio of taxes to national product.

Not only government deficit financing but a large part of private production is based on credit, on the expectation, that is, that further economic growth will be profitable enough to take care of the indebtedness. Corporate debts are not liquidated in the aggregate but are refunded with new bond issues that take the place of those coming due. Credit being continuous, expansion can also be continuous. Government debts are handled in the same fashion. Whatever it borrows and spends, the government need not directly worry about repayments, for it can again borrow an equal or greater amount.

Private expansion by way of credits is bound to an expected profitability and the expected profitability, to the actual profitability of capital. It is the latter which encourages or discourages private credit expansion. A static, or declining, rate of capital formation implies a contraction of the private credit structure. This can be compensated through government borrowings. In this way the government avails itself of privately owned productive resources. This "transfer" of economic control stimulates a "demand" of a specific kind, namely, a nonmarket demand for public undertakings above those that "normally" fall under the category of government expenditures. The same principle which made the actual war economy a full-employment economy also increases economic activity in the mixed economy, or rather, the former distinction between wartime and peacetime production has largely disappeared and the mixed economy operates, though to a lesser extent, as if it were a permanent war economy. In this way, and until recently, the mixed econ-

omy has been sufficiently "stabilized" to sidetrack such depressions as those that occurred in the period between the two world wars.

III

A period of economic expansion need not be inflationary, even though the money supply increases with the rising debt, because productivity may increase sufficiently to equate the social supply and demand. In any case, it is not the quantity of money and the effect of the credit mechanism upon the quantity of money which determines price relations and the state of production. Rather, it is the other way around; the state of social production determines its profitability and, therewith, price and money relations. An excessive monetary growth by way of credit expansion and deficit financing may, however, lead to inflation, just as credit contraction and too little money tends to be deflationary. There must be the "right" quantity of money to avoid both excessive inflation and excessive deflation and, according to Keynes, it is the government's function to arrange for this "right quantity." Fiscal policies toward this end are, of course, also monetary policies as they merely allocate the "right quantity" of money in the direction most conducive to economic stability and growth.

The Keynesians see the economy as a money economy and tend to forget that it is a *money-making* economy. In their views money appears as a mere instrument of manipulation for turning insufficient into sufficient social production. In the prevailing society, however, money is the beginning and the end of production; a given quantity of money, or capital, must be turned via the production process into a greater quantity. Capitalist production and capital accumulation are synonymous.

As in early capitalism, so in the mixed economy, capital is not accumulated to increase production but production is increased to accumulate capital. National production can be increased through the accumulation of private and public debts, but the accumulation of debts is not the accumulation of capital. It is for this reason that the private credit structure contracts as soon as the expansion of production is not an accumulation of capital. It is only the accumulation of public debts which can enlarge social production

where and when it fails to increase of its own accord, i.e., through capital formation determined by the market.

The increase of social demand through government purchases with borrowed money has been an inflationary process. Usually, inflation is defined as a situation wherein the national money income is rising faster than the national real income, i.e., where there is too much money in relation to the available goods. If it were true that government financing increases production generally, as its advocates claim, this rising production should close the gap between money income and real income and, thus, end the initial inflationary pressure. But inflation, however creeping, is continuous. Apparently, there is always too much money in relation to available supplies. In fact, however, there is an abundance of goods and not enough purchasing power. The inflation is, thus, not explainable as a situation in which too much money chases an insufficient quantity of goods. It is rather a mechanism which curtails consumption regardless of the supply so as to mitigate the loss of profitability caused by government-induced production.

IV

Economists are not in the habit of distinguishing between government-induced production and private capital formation, between government-created demand and market demand. They think of capital formation as a mere addition of tools to turn out more products no matter what these products may be. So long as total national production in terms of money is growing and unemployment is held in check they are satisfied. Only when stagnation displaces expansion do they start looking for more "permanent" sources of demand.

What could these sources be? Private capital formation by way of the production of marketable goods finds its *observable* limits in a diminishing market demand. In order not to reduce the marketability of privately produced commodities still further, government-induced production must be channeled into nonmarket fields—public works, armaments, superfluities and waste. For the same reason, and contrary to Keynes's suggestions, production cannot be increased by way of income distribution that favors the poor.

Although it is true that the economy's actual, or potential, pro-

ductive capacity would allow for a production of "abundance," it remains, as regards its profit requirements, a "scarcity economy." Because the production of commodities is merely a necessary mechanism for the production of profits and the augmentation of capital, the system's success or failure cannot be measured by the abundance or shortages of commodities but only by the rate of profit and accumulation. Despite a great amount of unsalable surplus production, this system must first raise the profitability of capital before it can enlarge social consuming power through higher wages and greater social welfare.

Wages are "costs of production" and, if increased without a corresponding larger increase of labor productivity, will reduce the profitability of capital. Wages do rise under capitalism, but only under conditions of rapid capital accumulation. Capital formation represents the excess of production over what society consumes. It may, and generally does, lead to increased consumption, but consumption itself cannot lead to capital formation.

Each capital entity, whether large or small, must try to keep its production costs at a minimum in order to reach the profit maximum. Extra profits through monopolization and price manipulation increase competition between the less privileged capital entities and transfer profits from the weaker to the stronger enterprises. Although a partial escape from competition frees some enterprises from a steady and pressing concern with production costs, it magnifies this concern for other enterprises. In the long run, of course, the resulting decrease of profitability of the more competitive enterprises will also decrease the amount of profits that can be transferred to the less competitive capitals. Although, actually, the whole process is played out in the market sphere, it has its source, and finds its limits, in the sphere of production.

As long as competition prevails it will center on the costs of production and will, thus, determine wages to the extent that they cannot be larger than is compatible with an enterprise's profitability. To the extent that greater profitability is reached through profit transfers via the marketing and price mechanism, higher wages in some enterprises are based on correspondingly lower wages in others. Just as the total social profit cannot be increased by the "inequality" of profit distribution, so total wages at any one time

remain what they are no matter how they may be distributed among different laboring groups.

Government determination of wages presupposes government determination of profits and vice versa, and each is equally impossible within the market economy whether mixed or not. The demand for a higher propensity to consume by way of higher wages amounts to a request for ending the market economy and, if taken seriously, would require centralized control of the whole of the economy and a planned determination of its production, consumption, and expansion. Short of this, the propensity to consume will vary with the ability to accumulate capital. It is for this reason that government-manipulated wage increases are not among the various "built-in stabilizers" of the mixed economy, and that it is always the lowest wage which sets the standard for government minimum wage legislation.

Increasing the propensity to consume through the redistribution of income in favor of the poorer classes should show up in income statistics. Where it does, it does so only through "interpretation," not as an undisputable fact. Recent studies of income distribution have revealed that, although wages have increased, the distribution of national income among the different classes has hardly changed. There have been shifts within the high-income brackets and some of these shifts undoubtedly reflect the expansion of the economy's public sector at the expense of the private sector. Despite these shifts, however, and with regard to total social production—private and public—the gap between production and consumption gets wider, not narrower. Because an increasing part of social production is of a nonprofitable nature, the decline of private capital production appears as an apparent redistribution of income without increasing the propensity to consume, least of all by way of higher wages.

V

It is not by increasing the propensity to consume, in the proper sense of the term, that the mixed economy solves the problem of insufficient effective demand. Yet, it does increase employment and production by way of "consumption"; but this "consumption" takes on the form of public works and the production of waste, pre-

dominantly in the form of armaments. As far as private capital "as a whole" is concerned, the government-induced part of total production falls out of the market system and thus out of the private accumulation process. It falls in the sphere of consumption where it is irretrievably lost.

This reverses the traditional procedure of capital formation. Instead of expanding capital at the expense of consumption through "savings," it expands production by expanding government expenditures that lie in the sphere of consumption. Nonetheless, recent history has demonstrated that it is possible to have a "prosperous" development under conditions of relatively shrinking markets and government-induced production because of the high level of productivity. When kept within definite bounds relative to the total profitability of the national economy, government-induced production may just compensate for the declining market demand without seriously impairing either the profitability of capital or the propensity to consume. The costs of government-induced production may be tolerable because they are distributed over the whole of society, and over a long period of time, by way of inflation and deficit financing. However, if too much of social production is consumed in whatever form, there is not only a smaller supply of capital for investment purposes but also a lower rate of profit for the existing capital and, consequently, a diminishing incentive to invest. When the increase in government-induced production is enough to reduce private capital formation absolutely, the gain in production by way of this type of production will once more be lost through the loss of production via private capital expansion. A further increase in government-induced production would then be possible only at the expense of consumption in that term's true sense.

This process may be understood by analogy with the war economy in which the increasing amount of waste production is realized by way of consumption restrictions as well as at the expense of new capital investments. Eventually, however, it is only at the expense of consumption, for the continuation and enlargement of waste production requires the replacement and extension of the productive apparatus. Under actual war conditions waste production increases at an ever faster rate, while waste production in anticipation

of war, or as a means to full employment, can be kept under control. Nonetheless, a steady, if slow, increase of waste production in the mixed economy requires the maintenance of a certain rate of capital formation, and the need for both this definite rate of capital formation and the necessary amount of waste production will eventually have to be secured at the expense of consumption.

VI

What is here called waste production, i.e., that amount of social production carried on to compensate for the relative stagnation of private capital production, appears to the capitalists as an unavoidable, if even, at times, regrettable necessity. It appears as necessary not only to those whose profits, or livelihood, depend on it, but quite generally. Unable, or at any rate unwilling, to admit to any inherent contradictions in the prevailing mode of production, or to its long-run incompatibility with social progress, economic difficulties are laid at the door of external enemies who provide the rationale for the growing waste production.

Indeed, a continuous capital accumulation appears theoretically conceivable as long as the growing productivity of labor provides the profits necessary to this end. There will be a continuous displacement of labor by machinery relative to growing capital, but this does not exclude an absolutely growing labor force. Likewise, the increase of exploitation can be accompanied by a continuous betterment of living conditions. However, profits must be not only produced but also realized by way of sales. The expansion of capital must be the expansion of the capitalist market.

Taking the market into consideration, a given mass of capital may be simultaneously too large and too small, that is, it may be too large with regard to the realization of profits by way of sales and, at the same time, too small to be able to enlarge the market by way of an enhanced productivity. The American economy, for instance, produced in 1962 about twenty per cent below its capacity, and this in spite of the great amount of government-induced production. It could increase production by almost one-fifth of the present national product without additional capital equipment and without exhausting the labor supply. Yet, it could not profitably sell the increased output, and it could not give it away, either,

without cutting down on sales that are still profitable. In view of the present markets, the production of the American economy is obviously too large; nor does there seem to be any way of realizing profits from a still larger production.

Nevertheless, to all bourgeois economists existing capital appears too small; all of them clamor for a faster rate of capital formation. This would, of course, increase production and require correspondingly larger markets, although even the existing capital equipment is not fully utilized. For the "radical" Keynesians this presents no problem. In their reasoning, extra market demand can be created at will through additional government spending and a further distribution of income to stimulate the propensity to consume. But governments of mixed economies represent the interests of private capital. Economic expansion by way of deficit spending is a slow form of profit expropriation and is resorted to because governments do not want to expropriate capital. Too much deficit financing, however, is a slow form of capital expropriation and it is only the force of circumstances, not the ideas of the Keynesians, which will induce governments to increase production by a continuous increase of the national debt.

Aside from all theory, capitalists, too, see a larger capital as a solution to the economic problem. Only under conditions of rapid capital formation will the social demand be large enough to employ all, or nearly all, productive resources. Under *laissez-faire* conditions the overproduction of capital, and the overproduction of commodities as its market expression, was always overcome, after a period of depression, by an enhanced capital accumulation. Profits which could not be realized on a smaller scale of production could be realized on a larger scale of production. Whereas the smaller capital had been unprofitable, the larger capital was once again profitable. The reason for this was to be found in the structural changes which capital underwent during the depression period. A larger scale of production for relatively fewer enterprises and a more favorable relationship between wages and profits restored a previously lost "balance" between capital accumulation and its profitability.

Unused capacity is held to be one more reason for achieving a larger capital. The unused equipment is considered "obsolete"

because it is not competitive and, therefore, not profitable. In fact, a full use of capacity would be less profitable than its partial use, not only because there is no corresponding demand for a larger production but because many firms and corporations are competitive (nationally as well as internationally) only in so far as they operate with, and limit themselves to, the most up-to-date technical equipment and the lowest labor costs. In order to increase their markets they must become still more competitive, i.e., increase the "obsolescence" of their capital equipment by an enhanced capital formation.

A larger capital represents a more efficient productive apparatus able to outproduce less efficient capitals, thus capturing their markets as well as enlarging the market generally. Designed and built up, in the first place, with a view towards an expanding world market, the productive apparatus of capitalistically advanced countries exceeds the scope of their national markets. The combined production of the industrial nations exceeds the scope of the world market, unless a general, rapid capital formation expands the world market as fast as international production. While this is not impossible, it is seldom the case. Some nations accumulate faster, or suffer more severe depressions, than others. The resulting changes in economic power relations are also experienced as shifts in political power relations, and national economic competition turns into imperialistic competition and war.

Under nineteenth-century conditions it was easier to overcome a temporary overaccumulation of capital by means of depressions, which more or less affected capital on an international scale. At the turn of the century it was no longer possible to change the international capital structure by way of depression and to reach, thereby, a new basis for the resumption of the accumulation process. What was still possible nationally was no longer effective internationally because, more than before, economic competition was now supplemented with political-military competition. The international concentration of capital, necessary for the resumption of the capital accumulation process, was no longer an "automatic" result of economic crisis but could only be brought about directly, through government "interventions" by way of war.

The resumption of the accumulation process in the wake of a

“strictly” economic crisis increased the general scale of production. War, too, resulted in increased economic activity. In either case, capital emerged more concentrated and centralized both in spite of and because of the accomplished destruction of capital. Despite the losses of some nations, the gains of others were large enough to initiate an apparently new period of general capital expansion soon to exceed, in terms of world production, prewar levels of production. In its effect, then, war production was not really waste production but a medium for the resumption of the capital formation process. In this sense, waste production was not only a subsidy to armaments producers but a precondition for the profitability of postwar capitalism. This is an additional reason why, generally, capitalists object to useful public works and welfare spending but not to an increase in “defense” expenditures. Aside from ideological considerations, experience shows that economic difficulties can be resolved by force, or that the retainment of economic privileges may require military intervention.

These notions are no doubt insane in view of the destructiveness of atomic warfare. It is, however, impossible to proceed rationally in an irrational society. The recognition that war can no longer solve the problems that beset the capitalist world does not prevent a form of behavior which may lead to war. No capitalist desired the losses of depression, yet the relentless competition for capital nonetheless led into crisis and depression; in other words, it was the “normal” behavior which caused the “abnormality” of the crisis. It is not different with regard to war. The relentless drive for political and economic dominance, either to gain or to retain it, is the outcome and sum total of all the asocial behavior that comprises social life under capitalism.

The recognition that war will be suicide does not affect the drift towards war and those who make political decisions are no less trapped in this cul-de-sac than the emasculated and indifferent masses. Simply by making the “right” decisions, as determined by the specific needs of their nations and the security of their social structures, they may destroy themselves and a large part of the world. They may realize the “obsolescence” of war, yet they cannot help preparing for it because a disarmed capitalism would soon cease to exist. They prepare for war not only because the production

of waste provides some kind of economic stability, but even more so because of an unspoken suspicion, if not awareness, that nothing really guarantees the future of capitalism except terrorization of the world. Because of the enormity of nuclear war the hope is often expressed that such a war will be averted, although it is granted that it may break out "accidentally." Without decisive social changes, however, it will be the avoidance of war which will be the "accident" rather than its occurrence.

VII

The Second World War failed to provide the impetus for a private capital expansion, determined by the market, on a scale sufficient to diminish government-induced demand. Any significant decrease of government spending in the postwar world led to economic contractions which could be altered only through the resumption of large-scale government spending. The best that could be expected was the stabilization of the relationship between private production and government spending as it emerged in the postwar world. But even this required a definite rate of economic growth in order to keep the economy competitive and to prevent the rise of unemployment. While governments tried to foster capital formation, their lack of success in this respect required an increase in government-induced production which put new obstacles in the way of private capital expansion. At times both policies were tried—the improvement of capitalist earnings by way of tax reductions and the increase of waste production through more deficit financing. But as the deficit must be financed out of private production, this merely amounts to giving with the one hand what the other takes away, even though the process is thereby stretched out over a longer period of time.

How long a time? This is an unanswerable question and just because it cannot be answered the argument in favor of larger government deficits appears convincing. Perhaps, there will come a time, allowing for private capital formation rapid and large enough to catch up with the rising national debt and keep it within manageable proportions. Perhaps not, but even this can be justified on the principle: "after us, the deluge."

How much can a government tax and borrow? Obviously not

the whole of the national product. Perhaps fifty per cent? This would come close to wartime conditions during which the American Government purchased roughly half of the national product. Under these conditions, however, the rate of investment was 2.9 per cent of gross national product—a rate below that of the depression years, with the sole exception of 1932, when the rate dropped to 1.5 per cent. A war economy, however, if indefinitely continued, will destroy the capitalist system. An increase of waste production up to fifty percent in the peacetime mixed economy would be equivalent to the conditions of the war economy, except that waste products deteriorate slowly instead of being destroyed outright. However, actual waste production in the United States, i.e., the military budget, comprises roughly ten per cent of gross national product, while total government expenditures account for about one-fourth of gross national product. There is still considerable leeway before the conditions of the peacetime economy approach those of the wartime economy.

Private capital can exist and even flourish despite a high ratio of government spending to national product. There is, of course, an absolute ceiling where taxation will reduce rather than increase social production via the public sector. But what this ceiling is precisely, or when it will be reached, is not predictable. The ratio of taxes to national income in the mixed economies varies between one-fourth and one-third. England has the highest and the United States the lowest ratio. Government intervention in the West European nations, however, did not imply the growth of waste-production but the revival of recapitalization of the market economy. Governments arranged for compulsory, or near-compulsory, institutional savings, and for the retention of a large share of corporate profits for reinvestment purposes. Expansion was achieved by way of deficit financing and inflation.

This forced recapitalization of Western Europe was not the result of the application of the "new economics"; rather, the "application" worked in this particular way because of the conditions in which Europe found itself after the war. The enormous destruction of capital, both in value and in physical terms, and the obsolescence of a large part of the surviving productive apparatus allowed for, and demanded, a rapid capital formation to avoid a

total collapse of the private property system. Both capital and labor accepted the demands of government to work not for more consumption but for capital accumulation. And, as in times past, more consumption became a by-product of the accelerated expansion process.

The same "economics" did not have similar results in the United States because there was no destruction of capital in either value or physical terms. To maintain the greatly augmented production after the war, and to enlarge it, required a far greater control of world economy than was actually achievable. Such control could not be realized at the expense of European capitalism; on the contrary, it required Europe's recovery. Private property capitalism simply cannot become a world economy controlled from a particular center, such as the United States. Just as in each capitalist nation the capital concentration process cannot complete itself without destroying the competitive market economy, so, internationally, capitalism cannot integrate under the dominance of a particular nation. Economic integration of world economy presupposes political integration, and this is an impossibility because of the competitive nature of capital production in a market economy. What was possible after the war was a return to prewar conditions modified by the political changes resulting from the war, that is, the restoration of a truncated European economy to a world market made smaller by the further spread of autarchism in various nations, and the emergence of a competitive "second" world market through the consolidation of the Eastern power bloc.

Under certain conditions, then, a mixed economy may expand its market demand and private capital formation in spite of a high ratio of taxes to national income, whereas another mixed economy, under different conditions, may not be able to increase the market demand and private capital formation despite a lower ratio of taxes to national product. Western Europe's "prosperous" rate of capital formation has its source in conditions resulting from the Second World War. With the ending of the special influences due to these conditions, Western Europe, like the United States, will most probably have to resort to more waste production to avoid a new economic decline.

VIII

Whatever the ratio of taxes to national income, government induced production comes up against the limitations of profitable market production. So long as the "private sector" dominates, there is no way of indulging in production free of profit considerations except via the profit production of private capital. The limits of private profit production are, finally, also the limits of government-induced material production. Where private capital dominates, state intervention in the economy cannot go beyond the point where it would seriously threaten private capital production. If the economy cannot "prosper" at this point it will not "prosper." To change this situation through farther-reaching interventions would now require the existence of governments able and willing to destroy the social dominance of private capital and to proceed from government control to government ownership.

Because government control in the mixed economy subordinates itself to existing property relations, it serves, at this stage of the game, the interests of big business. What redistribution of income there is consists, to a large extent, of a shifting of tax money from non-subsidized to subsidized sections of the economy. It aids the concentration of capital through the subsidization of big business, the main supplier of government-created demand.

Although production by subsidization helps to secure the profitability of durable, such as defense, industries, it lowers the profitability of non-subsidized industries. The increase of production lowers the social average rate of profit, derived, as it is, from the profitability of the total social capital and impairs the general ability to increase profitability by way of new investments. The *market* for durable goods shrinks, so to speak, despite the continued growth of the durable goods producing industries. Moreover, unless subsidized by government, there is no real incentive to invest because of the bleak market outlook. Competition could force expansion just the same, but in a highly-concentrated capital structure, price agreements rather than competition appear preferable. In key industries, prices are freed of all market pressures and are pushed up as unused capacity increases, thus forcing price increases upon all dependent industries. Prices rise despite the still-increasing produc-

tivity of labor which now fails to operate as of old, namely, as a way to larger markets.

In three different ways, then, big business secures its profitability even under conditions of a low rate of capital formation. First, through the exploitation of its own workers; second, through partaking in the results of exploitation of other capitalists, and, finally, through government subsidies which transfer tax money extracted from all layers of society to big business. What profit it appropriates must come from other sectors of the economy, thereby lowering their own ability to expand. Once waste production becomes a permanent and institutionalized factor in social production, a vicious circle begins to operate. By increasing government-induced production, private capital accumulation diminishes; the diminution of private capital formation increases government-induced production; this, in turn, diminishes private capital expansion, and so on.

How to break out of this vicious circle? "Theoretically," there are two possibilities, both equally impossible in practice. Both have to do with the "unmixing" of the mixed economy, either by a return to a "free" market economy such as prevailed in the past, or by ending the market economy as a mixed economy altogether. Unable to return to the conditions of the past and unable to transform itself into a state capitalist system, the mixed economy alternates between stagnation and destruction, between insufficient capital expansion and increased waste production. It is, then, not a manifestation of capitalism's ability to "reform" itself by realizing the golden mean of just the right amount of government control and just the right amount of private initiative for the "optimum" achievement of "economic efficiency," but a manifestation of the rather "permanent" crisis condition in which capitalism has found itself since the beginning of this century.

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