

LABOR RESEARCH ASSOCIATION

25

Trends in American Capitalism

A basic analysis of the movement of profits, capital formation, productivity, wages, standard of living and surplus value in the United States

International Publishers, New York

LABOR RESEARCH ASSOCIATION

TRENDS IN
AMERICAN
CAPITALISM

Profits and Living Standards



International Publishers, New York

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PREFACE

The purpose of this book is to discuss some of the tendencies of capitalism in the United States.

It attempts to bring a basic economic analysis to bear upon some of the statistical material now available on various aspects of our economy. It deals with the rate and mass of surplus value and profit, the conditions of the working class, and the probable future line of development of the so-called "free enterprise" system. It does not cover such important topics as the role of monopoly, foreign trade, and imperialism, treated in detail in such works as V. I. Lenin's *Imperialism, the Highest Stage of Capitalism*, Maurice Dobb's *Studies in the Development of Capitalism*, Anna Rochester's *Rulers of America* and James Allen's *World Monopoly and Peace*.

The narrow limits deliberately adopted in this study force us to emphasize certain economic factors at the expense of their equally important political consequences. We feel, however, that even this limited approach is justified in view of the way in which fundamental economic questions are today being ignored and, indeed, systematically distorted.

It is our hope that the analysis in this book of some of the major tendencies of the capitalist system in this country will help the labor movement to find its way in the eventful years ahead.

What Is Capitalism?

We live under a capitalist system. But there is considerable reluctance on the part of the system's beneficiaries to call it by that name. To call someone a "capitalist" is no longer regarded as a compliment. Recognizing this paradox, but unable to explain it, the press agents of capitalism beat the drums for what they like to call "free enterprise."

The term "free enterprise" is supposed to win sympathy for the corporations by suggesting the traditional idea that, in this country, every last citizen is perfectly free to become a thriving captain of industry. This sort of jargon appeals to our natural ambition for independence, success and economic security. But to the big corporations it means the direct opposite—freedom from "government interference," freedom to destroy the hard-won gains of trade unions, freedom to fix prices, to curtail production, and to stifle competition. For them it boils down to the absolute freedom to amass by any means the maximum profits.

In its advertising a certain big corporation used to call the American people "140 million capitalists." This corporation is not afraid to use the word, but distorts its meaning by suggesting that anyone who owns an insurance policy or has a few dollars in a savings bank is somehow a capitalist.

In this book we use the term "capitalist" in its exact, scientific meaning. It is the capitalists who own the steel mills, the auto-

mobile factories, the railroads, the banks, the mines, the steamship lines. Their combined centralized power has in recent decades come to be known as finance capital, which owns and controls the means of production. Of the great mass of American people, however, capitalists form only a small fraction.

HOW MANY CAPITALISTS?

Just as they try to conceal under pseudonyms the nature of the system, so they try to conceal their own identity. Census takers are not instructed to go around inquiring, "Are you a capitalist?" The net result is that capitalists are mixed up by the census in occupational categories with people who must work for a living.

The latest complete occupational study of the American people was made as part of the 1940 Census. In that year, 52 million people reported themselves as "gainfully occupied" or "seeking work," and they were classified in the following groups:

Table I. Composition of the Labor Force, 1940

OCCUPATIONAL GROUP	NUMBER (IN THOUSANDS)	PERCENT OF TOTAL
1. Professional workers	3,382	6.5
2. Proprietors, managers and officials:	9,234	17.8
Farmers (owners and tenants)	5,275	10.1
Wholesale and retail dealers	2,038	3.9
Other proprietors, managers and officials	1,921	3.7
3. Clerks and kindred workers	8,924	17.2
4. Skilled workers and foremen	6,105	11.7
5. Semi-skilled workers	10,918	21.0
6. Unskilled workers:	13,457	25.9
Farm laborers	3,708	7.1
Non-farm laborers	5,566	10.7
Servants' classes	4,182	8.0
Total	52,020	100.0

Source: Department of Commerce, Bureau of the Census; special report of Sixteenth Census, *Statistical Abstract*, 1947, p. 190.

This system of classification is not too satisfactory for our purpose. Yet it is clear that groups 3 through 6—and all but a few in group 1—together making up about four-fifths of the total, fall into the general category of wage and salary workers, having little if any proprietary interest in the enterprise which employs them. Group 2 is the only one that, by occupational definition, contains owners of income-bearing property.

This second group also includes managers and officials. They may not actually have property interests, but they tend to identify their interests with those of the capitalist class. We shall therefore include them in the tally of capitalists, even though the Census insists on throwing into this group railroad conductors, postmasters, and chain store managers.

Group 2, nevertheless, must be reduced somewhat because it includes also a large number of small shop-owners, sharecroppers, and poor farmers, who may technically own some income-bearing property but who usually employ little if any wage labor. They should not be lumped together with the capitalist class.

As for agriculture, the 1940 Census tells us that 82% of all farm operators farmed on such a small scale that they averaged less than \$2,000 worth of farm products.

Even if we count most of the "other proprietors, managers, and officials" as in the capitalist class and some of the wholesale and retail dealers and farm owners, we would find that the total would be probably under 5% and certainly under 10% of the total in all occupational groups.*

The Census classification and our estimates based on them indicate that the overwhelming majority of the American people are not capitalists. In order to make a living most of us must work for somebody else.

This is indeed a significant fact. The big newspapers have a

*It is interesting to note that the capitalist element in Great Britain has been similarly estimated to make up but 10% of the total working force. See John Strachey, *Socialism Looks Forward*, p. 10, Philosophical Library, New York.

hair-trigger reaction that produces at the slightest pretext editorials on the "great American middle class," or "the American public." The United States is advertised to its own people and to the world at large as the great "middle class country." Traditionally the term "middle class" is supposed to convey the idea of independence in means as well as in thought. But there is no longer a middle class in the old sense.

Modern corporate monopolies have depressed the economic status of the masses of small businessmen, storekeepers, farmers, and professionals to a level scarcely higher than that of industrial workers. In their stead they have created a new "elite" middle class—the servants of the big corporations.

These people of the new "middle class" may not exercise dominant ownership or control in any of the corporations. But they still draw substantial salaries and tend to identify their personal interests with those of the corporations hiring them.

They are, for example, the junior executives, the advertising men, the promoters, the distributors, and the managers. They are obviously independent neither in mind nor in pocketbook.

The occupational statistics show us very clearly that the great majority of Americans work for somebody else; and this somebody else is not the "great middle class" or "the public," but that very small portion of the population, not more than 10%, that can be described by the general phrase, "big business."

INCOME STATISTICS TELL THE SAME STORY

The government's own statistics on income distribution tell the same story. The Federal Reserve Board's study of consumer finances in 1946 indicates that about 65% of all families earned less than \$3,000 for the year, while only 4% received \$7,500 and over. Here is the breakdown:

Table II. Distribution of 1946 Money Income

INCOME GROUP	PERCENTAGE OF SPENDING UNITS	CUMULATIVE PERCENTAGE
\$ 000- 999	17	17
1000-1999	23	40
2000-2999	25	65
3000-3999	17	82
4000-4999	8	90
5000-7499	6	96
7500 and over	4	100

Source: Federal Reserve *Bulletin*, July, 1947, p. 791.

Another measurement shows that the top 1% of income recipients in 1939 received 11.9% of all income, and the top 5% received 23.4% of all income. And it is known that the greater part of the income of these few people was derived from property ownership of various kinds.*

It has been quite common, especially before the stock market crash of 1929, for the apologists of capitalism to point to the widespread ownership of stocks. Economists, such as Thomas Nixon Carver, would pin the label "capitalist" on a large number of people, most of whom work for others. These people, however, cannot live on their property interest alone and they have no effective voice in the control of the corporations, even though they may own a few shares.†

We do not deny that the ownership of a handful of shares of stock may create illusions in the minds of people, who are otherwise exploited during the course of their normal working day. But the fact that a few people harbor fantastic notions does not change the economic realities. Temporary National Economic Committee (TNEC) revealed these realities when it pointed out that "a small number of individuals receive most of the dividend

* National Bureau of Economic Research, *25th Annual Report*, 1946, p. 33.

† The anti-union aspects of the early employee stock ownership schemes are discussed in *The Americanization of Labor* by Robert W. Dunn, International Publishers, 1927.

outgo of the corporate system." Its study showed that about 1% of all stockholders owned about 60% of all stock shares.*

WHERE DO PROFITS COME FROM?

It is clear from the figures above that the number of people in our economic system who do not have to perform creative labor and yet receive the lion's share of income is very small. Our next step is to find how they do it.

The American people are told day in and day out that the capitalist class is a necessary group without whose services our civilization would crumble. Accordingly, profits are pictured as simply the just reward for "business acumen," "managerial skill," or "entrepreneurial risk."

Without a generous reward for the exercise of these various brands of ingenuity and boldness, the people are told, the wheels of industry would stop.

Nearly one hundred years ago, Karl Marx, the founder of scientific socialism, made a distinctly different explanation of the source of profit. It was an explanation so simple and clear that generations of professional defenders of capitalism since have made it their business to confuse, distort, and becloud it.

The way Marx cut through the fog of special pleading to reveal the very heart of the system can be illustrated fairly simply, especially if we pay a visit to a citadel of modern industry.

Let us pick out something that represents the cream of "free enterprise," say, an automobile factory. The automobile industry, with its mass production and assembly lines, marks the pre-atomic peak of capitalist enterprise.

When we enter the grounds of the factory, we find the most modern buildings filled with a mass of the latest machinery, manned by thousands of workers. We don't see the "boss" around

*Temporary National Economic Committee, Monograph No. 12, *Profits, Productive Activities and New Investment*, p. 50.

anywhere because he is made up of a handful of people who own the corporation but contribute to its management by clipping coupons, cashing dividend checks, and making perhaps an occasional appearance at a directors' meeting. Their representatives, the actual managers, are on the grounds somewhere. They aren't in overalls, but you could find them probably in a fancy office building, sound-proofed and air-conditioned, where they hold sway in richly appointed executive rooms. In the same building there may be armies of clerical workers lined up in regiments at typewriters and business machines, but that would be on different floors from the executives. Here the production workers exist only as records on little punched cards of various colors; but over on the assembly line the management is represented by the lower reaches of the executive hierarchy, the plant managers, foremen and straw bosses.

The automobile capitalists, whom collectively we shall call the "boss," actually own this big plant with all its latest-model efficient machinery. Where they got it would make a long story; in fact it would require us to venture from our immediate subject into a history of American capitalism.

For our present purposes we must be satisfied with the fact that they have it, and that they also have the money to hire armies of workers and purchase piles of raw materials and parts. The boss puts the workers at the machines and from the raw materials and parts these workers produce cars. (Just in case this suggests that the boss possesses great organizing ability, we should note that the assembly line is actually set up for the boss by a staff of engineers and technicians hired for the purpose.)

At the end of any given period, the boss finds that after paying the workers, settling up for raw materials and supplies, and putting enough aside to cover depreciation of his plant and equipment, he has a lot of money left over.

Now the boss does not scratch his head and wonder where it came from. He is not surprised, because that is what he is in

business for, to make money. He takes his good fortune calmly, and sets about finding new places to invest his money, perhaps in more automobile plants, or, if he is internationally minded and seriously shoulders the responsibilities of "world leadership," in an Argentine meat-packing plant, a Malayan tin mine, or a German steel plant.

He bothers his head very little about the source of his profits. He leaves it to his "public relations" experts and economists to explain the matter in such a way as to enhance the "good name" of the corporation.

It is here that the professional economists begin to sing their song about profits being the "reward" for the entrepreneur's business acumen, organizational ability, and similar virtues. But as we know from our visit to the automobile plant, most of the real owners who get the profits of the business are nowhere near the premises and the limit of their organizational ability lies in endorsing their dividend checks or clipping their bond coupons.

THE VALUE OF LABOR POWER

The real source of capitalist profit lies in labor. Marx held that the value of any commodity is determined by the amount of "socially necessary labor time" required for its production. For instance, if the production of a bus requires on the average twice the labor time that a passenger car requires, then the value of the bus is roughly twice the value of the car.

In addition to their value as an embodiment of socially necessary labor, commodities have a use value. There is no connection between use value and exchange value. The use value of an article may rise while the exchange value falls. At the beginning of the century, the cheapest car cost about \$5,000. Before World War II a better car, of much greater use value, could be bought for less than \$1,000. The use value had risen; the exchange value, determined by the amount of labor needed to produce a car, had fallen.

Under capitalism almost everything imaginable is a commodity to be bought and sold. Labor power is no exception. Nor is labor power an exception in this aspect: it too has a market value and a use value. The market value of labor power (or exchange value, to use the Marxian term) is determined by the amount of socially necessary labor time required to produce and maintain it; that is, to provide the worker's food, clothing, shelter, and a certain amount of education.

Labor power also has a use value, but its use value is unique; it can produce more value than is needed for its own production and maintenance. When raw material is processed it carries its value over into the finished product. The machinery and equipment spread the exact value of their wear and tear over the processed commodities. But the worker's labor power produces greater value than that which is paid as wages for its maintenance. To put it in the terms of our example: the automobile worker may receive \$10 for his daily wage, but during the day he may add value to the extent of \$20 to the automobiles upon which he expends his labor power.

It is this unique character of labor power that produces the profits of capitalist industry. And it is upon the difference between the value required to maintain the labor force and the much greater value produced by the labor force that the superstructure of modern capitalist industry is founded. This is where the automobile magnate's profits come from. They do not result from the fact that he "abstains" more or exercises wizardry, unscrupulousness, or "business acumen" to a greater degree than anyone else. They are derived from the fact that he has capital, which enables him to have a factory, employ workers and appropriate, unpaid-for, the value produced by the labor of the workers over and above the value of their wages.*

* The trade union struggle is itself the expression of the never-ceasing conflict between the capitalists' pressure to force wages below the value of labor power and the resistance of the workers.

When the boss buys labor power at its value he pays the worker a wage that is sufficient to enable the latter to pay for food, clothing, and shelter, and to support a family. But the wage paid for labor power is not always the same as its value, determined by socially necessary labor time. Forces of supply and demand come into play. For instance, when there is unemployment, the wage is forced down below the value of labor power. But if unions are alert and strong, they can push wages closer to or even above the value of labor power and compel the boss to part with some of that "surplus value," which the worker produces over and above the value of his labor power.

It may come as a surprise to workers, who correctly regard themselves as exploited, to find that it is possible on occasion for militant union pressure to force wages *above* the value of their labor power. But the point to remember is that the value of a worker's labor power is determined not by what he produces, but by what is necessary to maintain his skill and keep him working. When union struggle forces wages above this minimum level, workers may get more than the value of their labor power in terms of the groceries, clothes, and other things required for subsistence. But still the workers would be producing more new value for the capitalist than the capitalist pays for the workers' labor power; the "boss" would still be receiving surplus value, but the volume of surplus value would be reduced.

Returning now to the automobile factory, let us assume that the day's output, is, say, two hundred cars. Let us assume also that one hundred represent the value which is to be paid to the workers in wages; to be very generous, we may allow another fifty to cover raw materials, running expenses, and depreciation. The remainder, fifty cars, are the "surplus" out of which the capitalists pay their chief executives their big salaries and take for themselves dividends and interest on the stocks and bonds of the company.

Can we measure this surplus value which the capitalists appro-

What Is Capitalism?

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priate just because they are capitalists and own the means of production? Since our economy is run by and for the capitalists, the records are also kept in their interest. This means that it is hard to unearth exact figures on profits and related matters. But there are sufficient data to piece out a fairly accurate picture of the tribute the capitalists levy on the workers.

Measurement of Surplus Value

The employer cannot pay to himself in the form of profits all the surplus value created by the workers in his plant. After he has made deductions from his proceeds for wages, materials, fuel, and depreciation, he still cannot consider as his own profit all the surplus that remains. The chances are that other members of the capitalist class have claims against his business. That is one complication that makes the measurement of surplus value difficult.

If the employer does not own his industrial buildings, he must pay rent to the landlord. If he has borrowed from a bank, he must pay interest to the bank. And if he borrowed capital by floating a bond issue, he must pay interest to the bondholders. Last, but still no small item, he must share what is left with various kinds of managerial agents, who have multiplied rapidly throughout the modern industrial structure.

Or, if business is carried on by a corporation, the stockholders who own the company will find their board of directors doling out fancy salaries to high-priced executives and officials. They must also cover a number of overhead, marketing, and tax expenses. Advertising, for example, takes a big chunk out of sales receipts for the countless consumers' goods—automobiles, apparel, cosmetics, cigarettes—whose virtues are plugged day in and day out by the press and radio.

Tycoons and corporations find advertising and related sales costs necessary to the successful operation of a business, but from the standpoint of the national economy most of this so-called marketing expense is wasteful. Besides, it serves to swell the ranks of a socially unproductive group, the corps of public relations experts, press agents, hucksters in general, who live off surplus value and so come to identify their interests with those of the capitalists.

After tossing bones to these gentry, the capitalist, or the corporation, finally reckons the profits, most of which are paid to the tycoon or the stockholders in the form of dividends on stock. (Many companies retain a great deal of their profits, plowing them back to increase the capital and listing them by various accounting devices under "reserves" and "surpluses.")

It is obvious from all this that profits defined only as dividends and business savings are much less than the total surplus value created. Workers who are interested in knowing the full extent of their exploitation must regard the total of profits, rents, interest, high corporate salaries, bonuses, advertising, and similar socially wasteful business costs as making up the full sum of the surplus value they create but do not receive.

PROFITS AND TAXES

Profits are reckoned both before and after taxes. Corporations of course regard taxes as still another expense to be paid before they can calculate their "net profit." But here two points must be taken into account: First, corporate taxes are paid out of surplus value to the state, which performs certain services to the advantage of business, such as the protection of property. Secondly, although the government may perform certain other social functions, such as health services, sanitation, and education, these functions are chiefly financed not by corporation

taxes but by personal income and excise taxes, falling mainly on workers.*

Marx took the broad view that since the function of the capitalist state was to protect the institution of private property, all taxes on business to maintain the state were part of surplus value. This is undoubtedly true, but for the sake of argument we shall give the capitalists the benefit of the doubt and regard ordinary business taxes as representing socially necessary expenses. Therefore they may be deducted before reckoning surplus value.

Should a capitalist state, however, embark on an openly imperialist policy of war and aggression, such a benevolent assumption is no longer tenable; the taxes levied to support such a war can by no stretch of the imagination be considered a socially necessary expense. Nor can the expenditures by the state for strike-breaking police, national guards and various anti-labor agencies be considered necessary. But in other circumstances, when popular pressure forces the state to use corporate taxes to expand social services such as health insurance or old-age pensions, then these taxes, though originally part of surplus value, would be returned to the workers in the indirect form of social services, thereby raising the workers' standard of living.

We shall show later on that the expansion of social services is one of the ways the workers can secure a redistribution of the national income and a reduction of surplus value. Indeed, this is why reactionaries hated Roosevelt's New Deal so violently. They saw this use of taxes as an indirect attack on their own exclusive appropriation of surplus value.

NATIONAL INCOME FIGURES

How does the surplus value that goes to the capitalists com-

* An analysis of all taxes received in 1939 by federal and state governments indicates that no less than 78% of the total came from personal income, excise, consumption, and payroll taxes. By no stretch of the data could it be shown that business taxes accounted for more than 22%. (Temporary National Economic Committee, Monograph No. 3, *Who Pays the Taxes?* p. 44.)

pare in magnitude with the wages that go to the workers? The relationship which the former bears to the latter (called the rate of surplus value) defines the degree of exploitation of the workers.

As a first approach, let us examine the components of our national income in a typical peacetime year, say, 1939.

Table III. 1939 National Income by Distributive Shares

	(BILLIONS)
1. Wages and salaries	\$47.8
2. Net income of proprietors..	11.3
3. Interest and net rents	7.7
4. Net corporate profits	5.7
	<hr/>
Total	\$72.5

Source: U.S. Department of Commerce, *National Income and Product Statistics of the United States, 1929-1946*, Supplement to *Survey of Current Business*, July, 1947.

National income is a very useful concept with which we should all become familiar in this age of complex business organization. It is the sum total of income payments made to all persons gainfully occupied in legitimate activities and to owners of income-bearing property.

If in Table III we accept lines 2, 3, and 4 as the components of surplus value we get a total of \$24.7 billion of property income as compared with a wage and salary total of \$47.8 billion.

Now if the latter sum could be regarded as the money return to workers engaged in socially necessary labor, then this division of national income could yield a rate of surplus value of $24.7 \div 47.8$, or a little over 50%.

But this figure cannot be taken as a true measure of the division of national income into surplus value and wages. It is only the first approximation in our effort to unravel the true

relationship, which, as we shall see, yields a considerably higher rate of surplus value.

Let us examine the Department of Commerce tabulation of national income a little more closely. The first striking thing about it is the lumping together of wages and salaries. A large part of the salary payments go to corporation officials and other persons who are really members of the capitalist class, preferring to take part of their share of surplus value in the form of high salaries for services performed. Included in this category also are "supplements to employee compensation." Much of this is made up of bonuses which sometimes lift a corporate salary as high as \$500,000 per annum. All such salary payments should be reclassified; it is utterly misleading to mix them with salaries paid to white-collar employees and with wages paid to industrial workers.

There is another confusion of income categories in line 2—"net income of proprietors"—which includes the income of many small farmers and shopkeepers, who do not employ any wage labor and, therefore, do not receive surplus value.

"Net corporate profits" conceals another skeleton in the closet. We shall show later on how corporations systematically understate their profits to the government and to the public.

But the chief qualification must be made in our original assumption that all wages and salaries represent compensation for labor engaged in the creation of value. Only a portion of the labor force is so engaged. We can show this point clearly if we break down by industry the 1939 wage and salary component of national income. (Table IV.)

There are great differences in the nature of work performed in these industries. It is not always correct to say that the workers in an industry create surplus value whenever the wages or salaries paid to them fall short of the net revenue derived from their labors.

Table IV. Distribution of Wage and Salary Payments by Industry, 1939

	WAGE AND SALARY PAYMENTS (BILLIONS)
1. Agriculture, fishing	\$ 1.1
2. Mining	1.1
3. Construction	1.6
4. Manufacturing	14.3
5. Transportation	3.0
6. Communication and public utilities...	1.6
7. Wholesale trade	2.9
8. Retail trade	5.8
9. Services	4.7
10. Finance	2.4
11. Government and miscellaneous	8.7

Total	\$47.8

Source: U.S. Department of Commerce, *op. cit.*, pp. 27-28.

PRODUCTIVE AND "NON-PRODUCTIVE" WORKERS

Let us consider first the workers in the trades and finance industries. These "industries" clearly do not create surplus value. But they share in the surplus value created in other industries in return for a certain "service" performed.

This service or "sales" function carried on by wholesalers and retailers is socially useful. But it is very wastefully organized under capitalism since the drive of merchant capitalists to obtain their slice of the total surplus value leads to an ever-expanding and wasteful sales apparatus.

By assisting in the *sale* of commodities produced in the value-creating industries, the trades and finance industries help to *realize* surplus value, but they do not create it.* This is also

* Some merchandising functions, because they may involve transportation, result in value creation, but only as an incidental adjunct to the non-value creating sales function.

true of many other so-called "business services" such as advertising, legal, accounting, and merchandising services. Some of the workers in government service fall in the same category to the degree that such services are mainly designed for the business community.

In computing the national rate of surplus value, the low wage paid to the typist in an advertising agency or to a clerk in a department store, or to any worker in these non-productive industries, indirectly derived from surplus value produced elsewhere, should not be included in the wage or the surplus value component of the national income total. It should rather be regarded as a deduction from total surplus value which goes for the subsistence of a "non-value creating" worker.

The inflated salary paid to the advertising executive, however, is clearly part of surplus value. The low-paid employees of the advertising agency do not create surplus value but by their unpaid labor time they enable the advertising executive to realize as profit so much the greater share of the surplus value allotted to him by value-creating industries for the promotion of their products.

Moving on to the other "service" industries, we come to the "personal services" which include hotels, barber shops, laundries, restaurants, theaters, and similar establishments.

Wage workers in these industries would be productive in those cases where labor power is applied to capital to create marketable services, and thus create surplus value for the employing capitalist. However, most of those engaged in the so-called service industries cannot be considered to be productive workers in this sense.*

It is interesting to note from his discussion of the role of the

* Since the non-productive character of the service industries is so little understood, it will be helpful to see how Marx dealt with it. He did so in his *Theorien über den Mehrwert* (*Theories of Surplus Value*), extracts from which are given in Appendix I, pp. 117-23.

non-productive worker that Marx apparently felt that the value-producing element of the service industries was insignificant. Also it is worth noting that the numerical importance of these industries was relatively negligible in Marx's day. But it is one of the characteristics of present-day mature, monopoly capitalism that the proportion of such workers has expanded rapidly. This is true for those workers in the commercial spheres—trade, finance, business service and the like—who are non-productive because they help *realize* surplus value originating elsewhere, and for those workers in the other service industries who are non-productive because, in the main, they do not create surplus value.

CALCULATING THE NATIONAL RATE OF SURPLUS VALUE

It will help us at this point to consider that national income should be divided into three, rather than two parts, as follows:

1. Surplus value going to members of the capitalist class. Here we should include the \$24.7 billion of property income shown in Table III, plus an unknown portion of salary payments representing disguised forms of surplus value, minus a small unknown portion of "net income of proprietors" representing the return to those small shopkeepers and farmers who are really not part of the capitalist class. (For the sake of simplifying the discussion we might assume, though we have no real basis for it, that the last two items cancel each other out.)

This mass of surplus value, it should be noted, is spread over the entire economy, *i.e.*, will appear both in industries in which surplus value is created and in non-productive industries which share in this surplus value.

2. Wages paid to those workers in the "productive" industries (*i.e.*, those in which surplus value is created) in the sense that the worker, by applying his labor power to the means of production, turns out goods and services whose value is greater than the value of the labor power required. Of the eleven divi

sions of the economy listed in Table IV, we shall see that at the most the first six, including agriculture and fishing, mining, construction, manufacturing, transportation, communication, and public utilities, plus perhaps some of the personal service industries, can be considered industries creating surplus value. The wage and salary total for these industries in 1939 is at the most about \$24 billion and less than this amount if we could exclude the inflated salaries of executives. Taking the rate of surplus value as the ratio of surplus value to the wages paid out, we get a figure for 1939 somewhere above 100%.

3. The final component of national income consists of the wages paid to workers in the industries which do not produce surplus value, but only share in that produced elsewhere. These include: wholesale and retail trade, business services, finance (*i.e.*, real estate, insurance and banking), government, and those personal services excluded from the productive sphere.

Thus, we must exclude from our computations of the national rate of surplus value about \$24 billion paid out as wages and salaries in these industries.*

THE "NON-PRODUCTIVE" INDUSTRIES

The figures above indicate that approximately half of the working force is engaged in work from which no surplus value is created. That so many can be relieved from the necessity of working to produce food, clothing, and the basic requirements of life testifies to the vast expansion of productivity under capitalism.

*It should be made clear that workers in the non-productive industries are just as much exploited as the workers who create surplus value, because wage standards under capitalism tend to become uniform from industry to industry. In other words, the capitalist drive to keep wages close to, or below, subsistence levels operates in all spheres of activity. Given a certain amount of surplus value allotted to workers and capitalists in a non-productive business, the capitalist's share of it will rise or fall to the extent he can extract unpaid labor from his workers.

One might think that such a vast expansion of productivity would provide the foundation for a flowering of culture and the elevation of living standards. The record of American capitalism, however, belies this promise. For alongside the large number of workers in non-productive fields, we find chronic shortages of such basic necessities as housing. We find also that no less than two-thirds of our people always have lived below the minimum popularly considered a decent American standard of living.

Under capitalism, the small group of owners appropriate the enormously expanded mass of surplus value; it does not go for the benefit of society as a whole. A monopolist corporation prefers, for example, to conceal its huge profits by spending a large chunk on advertising.

Socially unnecessary enterprises, however, do serve a definite function at a certain stage in the capitalist order. The dispersal of surplus value among such enterprises tends to act as a brake on the speed of capital accumulation. It thus has a tendency to soften what we shall show to be an important contradiction of capitalism, *i.e.*, the contradiction between unlimited expansion of productive capacity and the restricted power of consumption.

We may appraise the expansion of non-productive industry and employment in two ways. First, it is a promise for the future of great social enrichment, in an economic and cultural sense, when American workers finally socialize the vast mass of surplus value that they produce and put it at the disposal of the entire society. Second, it is an indication of the retrogressive monopoly stage of American capitalism, under which labor power is planlessly and wastefully apportioned, while surplus value, socially produced but appropriated by private capitalists, serves chiefly to multiply unproductive, useless, and parasitical groups.

But we still have not been able to account for the other two factors which make our computed rate of surplus value less

than it really is. Thus, we are not able to isolate inflated executive "salaries" paid out in the value-creating industries, and the surplus value component does not (though it clearly should) include a large portion of the salaries paid in the service industries.

The Department of Commerce does not present any separation of wages and salaries, a typical instance of that obscuring of class relations which underlies so many government statistics. Incidentally, Marx took note of the tendency, even in his day, for capitalists to try to obscure the source of their profit by taking some of it as "wages of superintendence." He did not deny the socially necessary character of management as such when independent capitalists still served the function of organizers of production. But he pointed to the example of the co-operative factories which began in England in his time, where efficient management was obtained without the payment of the vast differentials characteristic of modern capitalist enterprise.

We have previously touched on the understatement of corporate profits in the national income figures. It is important to discuss this at greater length.

Profits of U. S. Corporations

How much money is made each year by American corporations? You might think this a simple, straightforward question, but the answer is far from simple.

Profits represent the difference between a corporation's receipts and its costs; but the company has considerable leeway in deciding what to regard as legitimate cost.

Corporation heads tremble with indignation at the thought of "opening their books" to public inspection, because only they and their lawyers and accountants, skilled in the art of concealing profits, know to what extremes modern corporate practice can go in devising new loopholes for tax avoidance purposes.

In Table V we present the most complete record available of the profits made by all corporations since 1909, based on their returns to the U.S. Bureau of Internal Revenue.* Accepting these figures at their face value for the moment, we note that, with the exception of the depression years 1931, 1932, and 1933, American corporations, taken as a whole, always come out ahead. Annual profits (after taxes) averaged around \$3 billion or more before World War I and went over the \$7 billion mark in the war years. Profits hit another peak in the 'twenties, and

* The net profits figure shown in the national income tabulation (Table III) is different because of a series of technical adjustments made by the Department of Commerce which need not concern us here. See *Survey of Current Business*, April, 1946, p. 11.

Table V. Profits, after Taxes, of Corporations, 1909-1946
 (Based on tax returns to U.S. Bureau of Internal Revenue)
 (BILLIONS OF DOLLARS)

YEAR	1 NET WORTH (END OF YEAR)	2 PROFITS EXCLUDING INTERCORPORATE DIVIDENDS	3 PROFITS PAID OUT AS DIVIDENDS	4 PROFITS RETAINED IN COMPANY	5 PROFITS INCLUDING INTERCORPORATE DIVIDENDS	6 RATE OF PROFIT PERCENT* + 1 - 1
1909	53.6	2.60	1.57	1.03	2.87	5.4
1910	57.9	2.91	1.83	1.07	3.23	5.6
1911	60.1	2.53	1.87	.66	2.85	4.7
1912	61.7	3.43	1.95	1.48	3.77	6.1
1913	64.1	3.35	2.17	1.18	3.73	5.8
1914	63.8	2.37	2.03	.34	2.72	4.3
1915	64.1	4.08	2.06	2.02	4.44	6.9
1916	65.8	7.41	2.50	4.91	7.91	12.0
1917	70.3	7.34	3.03	4.31	7.94	11.3
1918	75.7	4.55	2.62	1.93	4.97	6.6
1919	88.3	6.31	2.60	3.71	6.69	7.6
1920	97.0	4.34	2.90	1.44	4.87	5.0
1921	98.4	.02	2.63	-2.61	.75	0.8
1922	100.7	4.38	2.63	1.75	5.18	5.1
1923	103.9	5.83	3.30	2.53	6.70	6.4
1924	113.5	5.00	3.42	1.58	5.92	5.2
1925	118.1	6.97	4.01	2.96	8.15	6.9
1926	122.1	6.77	4.44	2.33	8.28	6.8
1927	135.4	5.88	4.77	1.11	7.54	5.6
1928	146.7	7.57	5.17	2.40	9.49	6.5
1929	164.6	8.08	5.93	2.15	10.67	6.4
1930	166.4	1.37	5.61	-4.24	3.94	2.4
1931	151.2	-3.15	4.18	-7.33	-1.18	-.8
1932	139.5	-5.38	2.63	-8.00	-4.12	-3.0
1933	134.7	-2.38	2.10	-4.48	-1.35	-1.0
1934	148.1	.16	2.64	-2.48	2.38	1.6
1935	151.6	1.67	2.93	-1.25	8.43	5.6
1936	141.4	3.90	4.70	-.80	6.58	4.7
1937	147.6	3.87	4.83	-.96	6.55	4.4
1938	143.2	1.52	3.35	-1.83	3.27	2.3
1939	142.6	4.09	3.85	.24	5.95	4.2
1940	144.2	4.85	4.07	.78	6.81	4.7
1941	148.0	7.33	4.47	2.86	9.51	6.4
1942	152.0	8.70	4.30	4.40	10.00	6.6
1943	156.0	9.80	4.45	5.35	11.10	7.1
1944	160.0	9.50	4.60	5.40	10.90	6.8
1945	165.0	8.60	4.60	4.00	10.50	6.4
1946	169.0	12.00	5.50	6.50	14.00	8.3
Totals, 1909-1937		101.78	93.05	8.75	139.90	
Average 1909-1937		3.5	3.2	0.3	4.8	

then broke all previous records during World War II and its aftermath.

You will note that Table V includes two "profits after taxes" columns. We should consider here the profits series in column 2 which excludes the dividends paid out by one corporation to another, for such dividends would appear twice in our profit total. In 1941 such "intercorporate dividends" were quite sizable, amounting to nearly one-third of total profits. They were of much less importance back in 1909.

This increase in intercorporate dividends is interesting and reflects the growing number of tie-ups in big business today. The du Pont concern is a good illustration of this tendency. E. I. du Pont de Nemours & Co. is the largest single stockholder in General Motors so that when General Motors declares a dividend, about 25% of it will appear in the receipts (and income) of the du Pont company.

Then there is another corporation called the Christiana Securities Co. which does nothing but collect dividends on about 27% of all the common stock issued by du Pont, in the interest of the du Pont family itself. Thus we see how a dividend payment by General Motors can reappear in the profit statements of at least two other companies. But the bulk of such duplication comes from the large number of banks, trust companies, holding companies, and similar financial institutions whose assets consist largely of the stocks of other companies.

While it is possible to take such intercorporate dividend payments into account and exclude them, it is impossible to keep

Sources for Table V: Data for 1909-37 taken from TNEC Monograph No. 12, *Profits, Productive Activities and New Investment*, pp. 9, 45. Data for subsequent years estimated from U.S. Department of Commerce figures using same methods employed in the TNEC study. Cf., *Survey of Current Business*, June, 1943, p. 24; May, 1944, p. 8; Feb., 1946, p. 8; April, 1946, p. 11; July, 1947, National Income Supplement, p. 31.

* As we shall see in the next section, the Marxist rate-of-profit concept is defined more broadly as the ratio of total surplus value to total capital invested.

track of such intercorporate tie-ups in corporate statements of net worth.

PROFIT ON NET WORTH

Net worth is the standard base on which to compute the ratio of corporate profits to capital investment, since it is the measure of the capital invested by the nominal owners of the corporation, that is, the stockholders. Although a clique of insiders may control the management, still the holders of common and preferred stock are the legal owners of the corporation, under the terms defined in the charter of incorporation. It is clear that the owners also own any undistributed profits.

Net worth consists of the total book value of common and preferred stock plus undistributed profits which may appear on the corporation accounts as "earned surplus," "contingency funds," "postwar reserves," or the like. For the purpose of computing net worth we use book value of stock, which may be the original par value or a value assigned by corporation accountants.

Since the stock holdings of one corporation in another cannot be eliminated from these estimates of net worth, it is best to compute the profit rate on the basis of columns 1 and 5 in Table V, in which both numerator and denominator are subject to the same degree of duplication.

The profit rate that emerges from this computation fluctuates between 4% and 6% except in extremely "good" times—mainly war years when it goes up—or in depression periods (1921, 1930 to 1934, and 1938) when it goes down.

A slight tendency for the rate to decline may be discerned by comparing the average for 1909-14 (5.3%) with the average for 1935-40 (4.3%). These years represent peacetime periods of about the same degree of cyclical prosperity. Of course these figures are inadequate as we shall show. But they do reflect the undeniable fact that profits even during the better years of the 'thirties were below previous levels.

PROFIT CONCEALMENTS

The most serious objection to these reports of profits and profit rates is that they are far below the levels actually enjoyed by monopoly capitalism.

In the first place, corporations, on the whole, tend to understate their profits when reporting to the Bureau of Internal Revenue. As a matter of fact the figures shown are based on unaudited reports, which means that they do not reflect even the upward revisions made by the Bureau when it examines the returns for "internal consistency." For instance, through investigation and litigation, the Treasury Department has forced corporations to pay taxes on more than a billion dollars of profits earned in 1929, which the corporations had not reported for that year.* Thus, through "carelessness" alone, corporations understated their 1929 profits by more than 12%.

But the understatement is far more serious. Big corporations are seldom "careless." Their lawyers make sure that no obvious fakery appears on their returns. But here is the crucial point: Corporations deduct from profits many so-called "expenses" that may be perfectly legal though quite unnecessary for efficient operation.

Take one example: During the war the government fined Ernest Weir and officers of the National Steel Corp. for using their wartime high priorities to install scarce air conditioners and refrigerators in an "employees' hospital," which turned out to be a country club for company executives. But such expenditures, including the fines, will appear (quite in accordance with accounting practice) in the company's accounts as an overhead cost of operation (or as "social welfare"). This is of course a minor example, but it illustrates the latitude open to corporations in deciding what it "costs" to run the business.

* *Survey of Current Business*, Sept., 1944, p. 10. It is emphasized here that this figure is a minimum estimate.

In general, we can distinguish between two kinds of unnecessary expenses that are commonly deducted from corporate profits.* The first kind arises out of the use of "conservative" accounting procedures whereby excessive reserve funds are set aside each year for depreciation charges, future tax payments, possible changes in the price of materials and stocks of merchandise on hand, and for various kinds of "contingencies."

During World War II especially, management showed remarkable ingenuity in devising novel reasons for setting up reserves in order to cut down on excess profits tax payments. Funds were set aside for possible losses on installment sales, bad debts, and foreign investments, for payment of incentive compensation and, finally, for vaguely defined "postwar contingencies," ostensibly to insulate the company from the effects of strikes, depressions, or earthquakes.

Now such forms of profit concealment can be traced in part, because the profits involved appear on corporate balance sheets as reserve items, where in time they begin to pile up and create embarrassing accounting problems.

But there is another type of profit concealment which will usually withstand the probings of any accountant, no matter how skilled. Here we have to do with "expenses" that are drained off from profits in the same year they are earned. They are usually grouped in corporation accounts under one grab-bag heading such as "operating expenses," not further itemized. Among these we can list the above-noted high salaries to officials, plus bonuses, special retirement plans for executives, high fees for legal and accounting services, costs of anti-labor advertising and so forth and so on.

The management of a manufacturing corporation, for instance, may decide to set up a subsidiary "sales" company, which

* Much of the material in this section is taken from the manual, *How Corporations Conceal Profits*, issued by the United Electrical, Radio and Machine Workers of America (CIO), New York, 1943.

because of high sales commissions will sustain woefully large losses, to be made good by the parent company.

Insiders have many fraudulent ways of realizing hidden profits without fear of detection. Very common is the "kickback" whereby an excessive price is paid for materials, part of which is returned to the purchasing agent in the form of cash—a transaction that will never appear on the company's books. This sort of thing goes on not only in small companies, but in large ones too. There, though perhaps confined to lesser executives, cashiers, and purchasing agents, it is tolerated because the large outfits, with their monopoly control on the market, are practically immune from the effects of fake high costs.

The big operators, of course, have more respectable (and lucrative) ways of capitalizing on their inside position. For instance, they often gamble in the corporation's stock and will usually, except perhaps during stock market crashes, come out ahead since they have foreknowledge of pending changes in the company's financial position.

It is hopeless to try to trace all the types of profit concealment represented by fake expense items, illegal kickbacks, rebates and similar devices. For this one must not only "open the books" but also the hearts of corporation officials. As for the "legitimate" types of concealment, they are all taken for granted. A corporation that did not indulge in them would be regarded by Wall Street as mismanaged. In the early days of national defense activity before World War II, the so-called legal devices were so skillfully employed that many corporations actually reported losses on government contracts which specifically provided for a definite rate of profit. The leading financial daily, the *Wall Street Journal*, at that time (Feb. 18, 1941), made the following comment:

"While some of the corporate earnings statements that have appeared recently have been disappointing, considering the volume of sales, recognition must be given to

the special charges that have been made against income in numerous cases. . . . Numerous companies are authorizing all legitimate expenditures that may build up the equity, and especially is this true of companies that would have to pay large excess profits taxes if they did not authorize those expenditures. There has been a tendency for some corporations to consider larger advertising appropriations. Others, not wishing particularly to increase current sales at a time when plant capacity is fully engaged, are putting more money into research. . . . Expenditures on research in numerous cases are going beyond the immediate exigencies of war and are pointed toward a postwar period when numerous plants now working on defense can be turned to new uses. Some corporate managements consider this long view not merely desirable but necessary for they anticipate rather keen competition in industrial manufacturing and they want to be prepared for it."

STOCK SPLIT-UPS AND STOCK DIVIDENDS

The practice of setting aside from profits unnecessarily large sums for reserves has certain limits. For instance, a corporation building up a huge depreciation fund to conceal profits would find itself writing off its plant and equipment in an absurdly short time, creating a ludicrous contradiction between the physical existence of a busy plant and its failure to appear among the listed assets of the corporation. General Electric is often cited for its conservative depreciation policy. By the end of 1941 GE had so diligently written off its property that its net book value (*i.e.*, original cost of plant and equipment minus depreciation) was less than the announced cost of the new plant and equipment it had acquired for the war program.

Eventually a big corporation, no matter how devious its

accounting practice, will reach some limits. Or else it will run out of new "contingencies" for which to set up reserves. At any rate, the time comes when, even after making all possible deductions of the kind discussed so far, it has to announce a mass of profits whose magnitude might attract undue attention.

Thus, when a company's annual profits begin to go above, say, ten or fifteen per cent of its net worth, the management begins to get uncomfortable, because a high profit rate is usually an indicator of monopolistic control, and as such invites unwelcome public attention. A huge profit rate is also hard to explain away in wage negotiations with unions.

At this point a very clever device is used to cut down the reported rate of profit. This is the practice of stock split-ups and stock dividends. In a split-up the shareholder exchanges his block of stocks for a greater number of new shares. In a stock dividend, the shareholder gets (in addition to whatever cash dividends are paid out) another share (or fraction thereof) for every one he already owns.

Such devices result in an expansion of the company's capital structure so that a given profit now represents a smaller *rate* per share on the revised capitalization. The true purpose of split-ups, in the words of *Business Week* (Feb. 9, 1946), is "to obscure large earnings per share on the old capitalization and to de-emphasize large dividends,"

GENERAL MOTORS: GOLD MINE FOR SHAREHOLDERS

The history of General Motors provides a good illustration of the importance of stock split-ups and stock dividends as a profit concealing device. If you were the fortunate possessor of a \$100 share of GM stock in 1917, when the company was established, and you did nothing more than sit back and collect on it, you would at the close of 1944 own more than 20 shares of GM common, solely because of successive split-ups and stock

dividends declared by the company during the 'twenties. And, of course, on each new share received you would be receiving cash dividends, just as on the old.

Now in the 28 years since 1917 it can be calculated that cash dividends alone, arising out of that original \$100 share of stock, would have totaled \$1,213, or an average of \$43 per year. Such dividends, representing an annual profit rate of 43% on your original investment of \$100, were reported as part of the profits of the company.

But an even greater profit has accrued to you over the years through the stock market's evaluation of the worth of your original share. Thus, if you had sold your holdings at the 1944 market price of about \$75 per share (it was at about the same level early in 1946) you would have had \$1,492, or \$1,392 more than your original investment. Your total return (including cash dividends) over the 28 years would amount to \$2,605, or an annual average of 93%.

Now you begin to get some idea of the kind of profit the insiders make, for only an insider would be in on the ground floor when General Motors was founded.

It might be objected that the above estimate of profitability depends on the stock market's judgment of the worth of GM, and the market might be wrong. There is an alternative way of calculating GM's total profits without taking the market quotation of GM's share value.

In 1944 the book value of GM's outstanding common and preferred stock was \$625 million, an increase of \$528 million over the 1917 figure of \$97 million. Since this increase came about through stock-splits and stock dividends with no new capital coming into the company since 1917, this increase must be regarded as part of the unreported profit accruing to GM shareholders. But the same applies to three interesting items to be found in GM's net worth as of 1945; a "capital surplus" of

\$45 million, an "earned surplus" of \$645 million, and finally we must also include a "postwar reserve" of \$76 million.

Thus we have a total unreported profit resulting from additions to net worth over the 28 years of \$1,294 million, averaging \$46 million each year or about 39.3% on the original 1917 net worth figure of \$117 million (composed of \$97 million of stock outstanding and \$20 million of reserves). Since cash dividends in this period averaged \$96.5 million per year, total annual profits come to \$142.5 million, or an annual rate of 122% on the 1917 net worth. This is even greater than the previously derived figure of 93%, even though we are ignoring the capital gain due to the rise in the market value of a GM share.

Now it must be emphasized that the gain in net worth between 1917 and 1945 is not the result of new capital coming into the company, but is rather the result of systematic reinvestment of retained profits, whether reported as such or concealed in the form of excess reserves that "build up the equity." And as such this rise in net worth is not a fictitious one, but represents a real increase in "earning power." The split-ups were a necessary device for writing up the net worth to conform to the increase in "earning power." Otherwise, if net worth had been carried at the original 1917 figure, the company would be reporting profits in 1936-1939, say, of over 150% per year!

One must pause to digest the implications of such an astonishing record. While GM is recognized as one of the most profitable corporations in the history of American capitalism, nevertheless, it has never, even in its most profitable peacetime years (such as 1929 and 1936) *reported* a profit of more than 25%. Yet, when we account for the traceable portion of profits concealed in the form of stock split-ups and "written up" net worth, we find its average profit since 1917 to be well over 100% per year! Every year on the average, GM has made more money than was originally invested!

Now of course GM's record is not typical, except of the

handful of giant corporations that dominate the industrial scene. But so important are these companies that it would be misleading to accept at face value the figures on profits of corporations, shown in Table V, which do not reflect profits concealed in the form of additions to net worth.

A corporation can "write up" its net worth in other ways than by splitting its stock. A purely fictitious rise in net worth will be registered when a corporation deliberately chooses to inflate its capital structure. The notorious holding corporation systems like those of Samuel Insull, which crashed in the early 'thirties, had an enormous amount of "watered" stock, expanded by mergers in which excessive valuations were placed on the properties brought together.

Such capital expansions are usually short-time phenomena, arising out of the mania of boom-time speculation and wiped out in the subsequent period of panic and depression with many small speculating investors ruined in the process. In general, utilities, because their profits are supposed to be kept down to a "fair rate" by public service commissions, will devote much time to inflating their assets in order to justify their high prices. You can usually be sure that what utilities report as net worth is greatly overestimated, both in good years and in bad. For other companies, however, the period of the 'thirties was a time when a lot of water was squeezed out of their capital structures.

We can now summarize the chief ways of writing up net worth, with their attendant implications, somewhat as follows:

1. Real increase in net worth. Profits can be concealed by adding them to the capital of the corporation, either through stock dividends, or by amassing large reserves, or both. Future profits then seem to run at a smaller rate because they are figured on a larger base. This is clearly the most effective method of profit concealment open to corporations.

2. Fictitious increase in net worth. This device conceals only current profits, since they appear to be at a smaller rate. But it

enables a corporation to declare a very large profit on its actual capital investment, *i.e.*, 4% profit on a fictitious capital of \$100 million, of which half is water, equals 8% profit on the \$50 million of real capital.

3. Replacement of water by real increase in net worth. If a large part of the capital structure represents water, profits can be turned back into the corporation to replace the water with real assets. In this way profits can be concealed without altering the capital structure of the corporation.

TNEC RECORD ON PROFITS

Now the method of uncovering concealed profits used in the analysis of General Motors was applied to all corporations by the Temporary National Economic Committee in 1941. In general, wherever concealed profits are used to "build up the equity," it becomes possible to trace them by noting how much of a long-term increase in a company's net worth can be attributed to new stock issues, and how much is due to re-evaluations of the original assets, based on the company's real "earning power." The latter represents concealed profits, but is a minimum estimate, because it ignores the kind of illegal concealed profits which never figure in bookkeeping transactions.

This then, is what the TNEC did. Consider, in Table V, the data shown for the years 1909-1937. It will be noted that for these years, corporations reported a net profit total of \$102 billion (col. 2), after deducting intercorporate dividends totaling \$38 billion and after deducting the 1931-33 losses, thus making an average annual profit of about \$3.5 billion over 29 years.

Now, over the same period, corporations paid out in cash dividends (col. 3) about \$93 billions, excluding intercorporate dividends. Dividend payments are a matter of public record and are not biased one way or another. Thus corporations, in effect, told the government that in 29 years they retained profits of

only about \$9 billion (col. 4). Such profits would be reinvested and would go towards increasing the net worth of corporations. But the net worth of corporations increased in this period, not by \$9 billion but by \$94 billion.

Part of this increase in net worth would come from new issues of stock, but stock issues (both new and refunding) amounted to only \$28 billions in these years.* We still have to account for a mysterious increase in net worth of \$66 billions. Most of this increase represents an increased valuation made by the corporation, by means of stock splits, stock dividends, re-appraisals, or the like, all based on the increased "earning power" of the corporations, built up by the reinvestment of retained profits.†

On this analysis then, a major share of the unexplained \$66 billion increase in net worth *represents concealed profits*.

The TNEC study hesitated to regard all of the \$66 billion as representing concealed profit on the ground that some of it might be due to the "distribution of new stocks in exchange for unincorporated businesses and assets and in exchange for other services." Thus, if a corporation bought out an unincorporated business by issuing new stock in exchange, there would be an increase in net worth not associated with profit concealment.

But the study goes on to state that in view of the small importance of unincorporated business in relation to corporate enterprise, this qualification could not account for very much of the \$66 billion. The author plays safe and concludes that if

* Annual data on new stock issues are compiled by the *Commercial and Financial Chronicle* and are available in successive issues of the *Statistical Abstract of the United States*.

† The increase in net worth between 1909 and 1937 is probably even greater than the figures in Table V indicate, since in 1909 there was probably a greater degree of "watered" assets than in 1937. A lot of water was squeezed out of capital assets in the Great Depression and there was no increase in net worth all through the 'thirties.

such "unreported additions to equities . . . totaled as much as the 28 billion dollars of the reported stock issues, this would still indicate retained profits after all losses of more than 35 billion dollars in place of the 9 billion dollars indicated by the annual net profit figures. And this would imply a 4.5 billion dollar rather than a 3.5 billion dollar annual average of net corporate profits during the 29-year period."*

THIRTY-FIVE YEAR AVERAGE—11 PER CENT

The same reasoning, however, can equally justify our regarding \$60 billion as a reasonable estimate of the 29-year concealed profit total, especially when we bear in mind that we have been deliberately conservative in ignoring the capital gain due to the rise in the market value of corporate stocks and in ignoring all the fraudulent and semi-fraudulent profit-concealing devices which corporations have engaged in. On this basis, then, the \$60 billions of retained profits added to the \$93 billion of cash dividends give us a total profit of \$153 billion for the 29-year period. This comes to an annual average of \$5.5 billion or 57% more than the reported figure of around \$3.5 billion. Thus we may conclude that corporations have on the average understated their profits by more than one-third!

Applied to the average profit rate reported in the 35-year period 1909-1944, we get a figure of 11% instead of the reported one of 7%.

We now have a better idea of what lies behind the innocent-appearing figures in the national income breakdown of Table III (p. 23), and we should remember that any estimate of the rate of surplus value, based on national income figures, is bound to be too low. Nevertheless, we can now regard our previous estimate of 100%, the rate of surplus value based on such figures for 1939, as a kind of lower limit of the true rate.

* TNEC Monograph No. 12, *op. cit.*, p. 15.

Rather than continuing our efforts to refine and reclassify the components of national income we shall in the next section estimate the rate of surplus value for one particular part of the economy, *i.e.*, manufacturing.

CHAPTER IV

Surplus Value in American Manufacturing

The statistics available for manufacturing make possible relatively precise estimates of such basic economic categories as surplus value, wages, and capital. The contradictions that appear in manufacturing enterprise are typical of those affecting American capitalism as a whole, though these contradictions may emerge in different forms in different spheres of activity.

Let us take 1939, a good prewar year and the last one for which statistics are available. They cover 184,000 manufacturing plants reporting to the U.S.Census Bureau:

	(BILLIONS)
a. Value of product	\$56.8
b. Cost of materials and fuel	32.2
c. Wages	9.1
d. Salaries	2.5
e. What is left after deducting b, c and d from a	13.0

The value of product represents the price of goods at the factory and is of course considerably less than the price paid by the ultimate consumer. The manufacturer, in effect, sells commodities at a discount, *i.e.*, at less than total value, to enable the middle men who "merchandise" the goods through the wholesale and retail stages to share in the surplus value created in the factory. We do not have the data necessary to estimate the total surplus value which goes to the manufacturing capitalist

plus the whole host of middlemen. What we attempt here is an estimation of the surplus value which remains in the hands of the manufacturing capitalist. As a first step let us deduct from the value of product what the manufacturer pays out in wages, salaries, and cost of materials.

Can we use these figures to compute a rate of surplus value? If we took line *e* as surplus value and the sum of lines *c* and *d* as the returns to labor, we would get a rate of surplus value of 112%. But there are at least three things wrong here. First, the final item, line *e* includes some legitimate overhead costs, like depreciation, which should not be considered part of surplus value. On the other hand, we have seen that many executive salaries are disguised forms of surplus value and it would not be proper to regard the combined wage and salary total as the returns to labor; much of the salary total belongs in surplus value. Third, manufacturing plants earned more in receipts in 1939 than is indicated by the census statistics.

The financial data for 1939 reported by manufacturing companies to the Bureau of Internal Revenue and published in its annual *Statistics of Income*, throw light on all of these questions. By and large, the companies reporting to the Census and the Revenue Bureau are the same, even though we note that the 1939 *Statistics of Income* covers returns from 86,000 manufacturers instead of the 184,000 plants covered by the Census. This apparent discrepancy is due to the Census practice of regarding each plant of the same company as a separate establishment.

The *Statistics of Income* breakdown of receipts is as follows:

	(BILLIONS)
1. Gross sales	\$56.0
2. Other receipts	2.3
	<hr/>
3. Total receipts	58.3

Note that gross sales (\$56 billion) are very close to the corresponding Census value-of-product figure (\$56.8 billion). "Other

receipts" includes mainly rents, royalties, interest, and dividends from corporation investments. Profits and, therefore, the surplus value going to manufacturing capitalists are increased by these \$2.3 billion of miscellaneous receipts not covered by the Census Bureau figures.*

The breakdown of costs in the *Statistics of Income* is also significant. First we find the following:

	(BILLIONS)
4. Cost of goods sold	\$41.2
5. Cost of operation	.6
6. Compensation of officers	1.0
	<hr/>
Total	42.8

"Cost of goods sold" includes cost of materials and fuel, plus wages and salaries. Adding to this the cost of operations and officer compensation we have a figure roughly equivalent to the \$43.8 billion reported to the Census as cost of material, fuel, wages, and salaries.

Here we uncover the fact that at least \$1 billion of the \$2.5 billion "salaries" total went to company officers and should be regarded as part of surplus value. Even the remaining \$1.5 billion of salaries cannot be regarded as a return to productive labor because most of it represents the compensation to managers, lesser executives, salesmen, and similar non-production employees. Relatively little white-collar and clerical labor is included here because the Census figures are deliberately restricted to exclude non-factory employment. Thus, for instance, where a manufacturing company maintains a separate sales or distribution department, both the revenue and salaries associated

* "Other receipts" do not originate in the manufacturing industry, but we shall include them as part of the mass of surplus value which remains there, following capitalist usage. Thus, as we shall see, capitalists go on to deduct as expenses the interest and rent paid to other capitalists. We shall again follow suit, at least provisionally reckoning as surplus value only what remains in manufacturing.

with that department are excluded. For our present purpose, in order to lean over backward on the conservative side in estimating the magnitude of surplus value, we will nevertheless regard this \$1.5 billion of salary payment as a return to labor, but it would be most misleading to accept this as a realistic assumption in our later reasoning.

Accordingly, we now deduct items 4 and 5 from total sales revenue (\$58.3 billion) and get \$16.5 billion instead of \$11.5 billion as the difference between total receipts and the cost of materials and labor.

But still this \$16.5 billion is not all surplus value, for it includes certain other "legitimate" overhead costs, as follows:

	(BILLIONS)
7. Repairs	\$0.7
8. Depreciation	1.4
9. Depletion	.2
10. Bad debts	.1
	<hr/>
Total	2.4

We already know that all these costs are probably greatly inflated in order to minimize tax payments on reported profits. Nevertheless, still giving the capitalists the benefit of every doubt, we will accept these costs at face value. Deducting them from our previous figure of \$16.5 billion we get a mass of surplus value totaling \$14.1 billion. Compared to the \$10.6 billion return to labor (\$9.1 billion as wages, plus \$1.5 billion as salary), this yields a rate of surplus value of 133%.

At this point, if a manufacturer were going over our accounts, he would declare with some indignation that he doesn't keep all of the \$14.1 billion. He would point to the following additional cost items:

	(BILLIONS)
11. Rent	\$0.3
12. Interest payments	0.3
13. Taxes	1.6
14. All other expenses	7.1
	<hr/>
Total	9.3

Of rent and interest we can say that while they go to other capitalists and do not remain in the hands of manufacturers, such payments nevertheless represent part of the surplus value originating in manufacturing. However, still adhering to the task of singling out the surplus value that *remains* in the industry, we shall again go along with capitalist practice in deducting, as "expenses," rent, interest and even taxes. This leaves a balance of \$11.9 billion, which compared to the \$10.6 billion going to labor would give us a rate of surplus value of 112%.

"ALL OTHER EXPENSES"

But our capitalist at this stage would now point to the "all other expenses" item of \$7.1 billion. At this point we have to stop leaning over backwards to keep from falling down. We must ask just what do "all other expenses" represent? The *Statistics of Income* gives us no clue. Ask a manufacturer, and he will hem and haw, but digging deeper we find this is the mysterious rat hole where most of the concealed profits go. A partial list of the kind of "expenses" contained in this catch-all includes such items as special reserves, expense accounts, insurance premiums on the lives of company officers, professional fees, and advertising costs. If a corporation runs nationwide ads attacking the CIO, their cost comes out of "expenses."

The manufacturer would assert, of course, that these are necessary costs without which the business cannot run. And in a sense this is so, because all businesses operate on this basis. But

from the standpoint of the socially necessary labor which underlies the value of product, this kind of expense represents concealed profits which should be included in surplus value. Even if we again give our capitalist the benefit of the doubt and knock off a billion or so for miscellaneous expenses representing money paid for necessary services outside the manufacturing industry, we are left with a mass of surplus value somewhat larger than the wage and salary total of \$10.6 billion. This means that no matter how far we lean over backward, we arrive at a rate of surplus value in excess of 100% for 1939.

If instead of giving the capitalist the benefit of every doubt we reversed the process to see how high an estimate of the average rate of surplus value is possible for manufacturing plants in 1939, we get a figure of \$9.1 billion paid out to wage-earners as compared with about \$16 billion of surplus value. This \$16 billion includes (1) everything kept by manufacturers as direct and concealed profit, or (2) shared with capitalists in other industries in the form of interest, or rent, or (3) paid to the government as taxes, or (4) paid out as high salaries to capitalist agents of various kinds. It would give us a rate of surplus value of 175%, and still excludes the surplus value realized by the middlemen in the wholesale and retail trades who sell the goods to ultimate consumers at substantial mark-ups.

Now, it must be remembered that we have been dealing with averages for all manufacturing companies. Thousands of small companies operating on low profit margins pull this average down. Offsetting them are many large companies whose rate of surplus value is above the average because they have super-profits due to monopoly control. Take General Motors, for example, the largest manufacturing corporation in the country from the standpoint of total assets, sales, income, dividends, number of stockholders and number of employees.

In 1939 General Motors paid out about \$290 million to hourly

wage-earners,* out of total receipts of \$1,417 million. Unfortunately, aside from \$43 million set aside for depreciation and amortization, we have no way of estimating precisely how many of the remaining costs are necessary ones, for GM prefers not to be too specific in its financial reports. However, in the light of our previous demonstration that GM's true profits since 1917 usually averaged over 100% of its original investment, we can be sure that the rate of profit which GM declared it earned in 1939—17.4%—was greatly understated. It is quite possible that surplus value created by GM workers was more than twice as great as the figure of \$223 million declared as profits (before U.S. taxes). In other words, the rate of surplus value for GM in 1939 was probably close to the 200% mark.

One may ask what difference does it make how large or how small the rate of surplus value is in American industry today. This rate is significant, because it indicates how much of the value produced by the wage-earner is withheld from him under capitalism because the means of production are privately owned. Our estimates indicate that in the pre-World War II period the rate of surplus value ran over 100%, which, incidentally, was the rate which Karl Marx assumed in his illustrative examples.

A FIFTY-YEAR TREND

More important even than the level of the rate of surplus value is the direction in which it tends to move. Marx showed that the rate tended to go up and that many of the contradictions of capitalism could be traced to this tendency. Let us now examine statistically the movement of this ratio in American industry.

In tracing the long-term movements of surplus value in American manufacturing, we can make use of *Census of Manufactures* data. But we cannot repeat the detailed analysis for 1939 because

* The 1939 wage and salary total was \$386 million; for 1941 the United Automobile Workers (CIO) estimated that of \$670 million paid out as wages and salaries, \$500 million or 75% went to hourly rate workers.

the required *Statistics of Income* data do not go back far enough. Table VI covers *Census of Manufactures* data for the fifty-year period 1889-1939.

Table VI. Trends in Wages, Profits and Overhead in Manufacturing since 1889

(BILLIONS OF DOLLARS)					
YEAR	1	2	3	4	5
	WAGES	COST OF MATERIALS AND FUEL	VALUE OF PRODUCTS	PROFITS AND OVERHEAD 3 - (1 + 2)	PROFITS AND OVERHEAD DIVIDED BY WAGES 4 ÷ 1
1889	1.89	5.16	9.37	2.32	1.23
1899	1.89	6.36	11.03	2.78	1.47
1909	3.20	11.78	19.95	4.97	1.55
1919	9.61	36.23	59.96	14.12	1.47
1929	10.88	37.40	67.99	19.71	1.81
1939	9.09	32.16	56.84	15.59	1.72

When we subtract wages and the cost of materials and fuel from the total value of products manufactured, we get a residuum of profits and overhead which is, as we have seen, mainly but not entirely, surplus value. Let us make what we know is a conservative assumption, namely, that the rate of surplus value in 1939 was 100%, and that therefore the mass of surplus value corresponding to a wage total of \$9.09 billion is also \$9.09 billion.* For 1939 then, column 4 would consist of \$9.09 billion of surplus value and \$6.5 of "legitimate" overhead costs (depreciation, interest, repairs, rent, and taxes.)

We can now divide column 4 into these two components for all years back to 1889 by making another assumption (which we show below to be reasonable), namely, that the relation between

* For purposes of simplicity we exclude salary payments from both the wage series and the surplus value series, since we do not know what proportion of the salary total should be assigned to wages on the one hand (white-collar workers) and to surplus value on the other (executives, officials, etc.). If we did know, both the wage and surplus value totals would be somewhat higher.

surplus value and overhead costs remains constant. We then get the following figures:

Table VII. Rate of Surplus Value in Manufacturing: 1889-1939

YEAR	(BILLIONS OF DOLLARS)			
	1 WAGES	2 SURPLUS VALUE	3 OVERHEAD COSTS	4 RATE OF SURPLUS VALUE* $2 \div 1$
1889	1.89	1.35	0.97	71%
1899	1.89	1.62	1.15	85%
1909	3.20	2.90	2.07	91%
1919	9.61	8.23	5.89	86%
1929	10.88	11.49	8.22	106%
1939	9.09	9.09	6.50	100%

Here we see Marx's assertion confirmed; the rate of surplus value has a clearly defined upward tendency over the half century considered, even though there was a slight drop between 1929 and 1939. The tendency would be upward, no matter what level we had assumed to obtain in 1939.

OVERHEAD COSTS

We shall now examine the significance of this tendency in detail. But we must first dispose of one objection that bourgeois economists might make at this point.

They would point to column 5 of Table VI and admit that in modern American capitalism the ratio of profits and overhead to wages rises steadily. They would say that this does not necessarily mean that the ratio of profits to wages goes up, but that the rise is due to the increasing importance of overhead costs, and that

* It must be emphasized that this column is based on the conservative assumption that the rate of surplus value was 100% for 1939. Previous discussion has shown that a much higher rate might have been assumed with full justice. The chief value of this column is to show, not necessarily the actual rate for each year, but the upward tendency over the fifty years covered.

therefore it is unfair to assume a constant relation between overhead costs and surplus value as we have done. And, indeed, bourgeois economists have made quite a fetish of the "institution of overhead costs." For instance, a publication of the Twentieth Century Fund, *Does Distribution Cost Too Much?*, showed that 59¢ of the consumers' dollar goes for distribution, *i.e.*, costs not connected with manufacturing, such as transportation, advertising, packaging, and marketing.

The "overhead" costs included in our table cover, aside from depreciation and repairs, such items as interest, rent, and taxes, which are really surplus value items. As for the "marketing" costs on which these economists lay so much emphasis, two points must be noted. First, most of such marketing costs relate to the functions of the wholesale and retail industries, and are more than covered by substantial mark-ups over the wholesale price set by the manufacturer. We do not attempt here to estimate the surplus value realized though not created, in these industries. But if it is true that distribution accounts for 59% of the total final price of a commodity, it would appear that our earlier estimates of surplus value, restricted as they were to what is retained within the manufacturing industry, fall considerably short of the true surplus value created by the manufacturing worker. The really important point to be stressed is that in the long run the "high" cost of distribution serves to spread surplus value among such people as salesmen, advertisers, and storekeepers. Indeed, Marx predicted that these unproductive activities would increase in the later stages of capitalist development, *i.e.*, that the expansion of surplus value would allow for an increase in the social classes dependent on surplus value—"capitalists, landlords, their hangers-on, the unproductive classes (employees in trade), etc." (Karl Marx, *Theories of Surplus Value*, Vol. I, pp. 378-79, German ed.)

The long-term growth in the costs of distribution indicated by the rising importance of overhead costs does not of course repre-

sent any new value created, even though it gives rise to a numerous tribe of merchants, clerks, and advertising men, who may think of their work as socially useful. Thus, assume that a manufacturer maintains his own selling department. If, because of increased competition or for other reasons, his costs of selling increase, he does not regard this increased cost as representing an increase in the value of his product, but sees it purely as a reduction in his profit.

Actually this rise in distribution activity is intimately associated with the trend toward monopoly in our capitalist economy, a subject we have not been able to probe within the limits of this study. But the relationship can be sketched briefly. Monopolies in our economy (such as, for example, the three giant automobile manufacturers) seldom seek to maximize profits by cutting prices with a view toward selling more cars. It is usually understood among the big boys who set the rules of the game that the market must be "maintained," which means no price cutting, for that could lead to retaliation and might put things out of control. However, the rules of the game do allow each monopoly to enlarge its share of the market, if by the use of high-powered salesmanship it can fool the consumer into thinking he is getting more for his money. This is one of the reasons why America, the land of monopolies, especially since World War I, seems drowned in a deluge of radio, newspaper, and magazine advertising, while the salesman has become the virtual symbol of American business.

CHAPTER V

The Organic Composition of Capital

Before continuing with our discussion of surplus value and its distribution we must introduce one more basic Marxist concept—the “organic composition of capital.”

The organic composition of capital hinges on the relation between wages, which Marx called variable capital (denoted by v) and constant capital (c), which represents the value of the machinery, plant, raw materials, and fuel employed in production. The ratio defining the organic composition of capital may be taken as $c \div v$ or $(c+v) \div v$.^{*} All of us are impressed by the high degree of mechanization found in American industry. It is this concentration on machines and capital equipment of all types, as contrasted with the workers needed to man them, which underlies this concept of “organic composition of capital.”

In 1939, for instance, American manufacturers paid out \$9.09 billion in wages (*i.e.* variable capital) and during the course of the year invested \$32.16 billion for materials and fuels, in addition to an existing investment of \$26.70 billion in plants and machinery. If we make certain simplifying assumptions about the rate of turnover (to be discussed below), we can regard the constant capital component c as equal to \$58.86 billion (*i.e.* \$32.16 billion + \$26.70 billion).

Thus, $c \div v = 58.86 \div 9.09 = 6.48$. If $(c+v) \div v$ were taken as

^{*} The ratio taken by Marx to define the organic composition of capital is $c \div v$. However, since this ratio differs from the ratio $c+v \div v$ by unity, and has the same direction of movement, it will be convenient for us to employ the latter to express the relationship between the components of capital.

the ratio defining the organic composition of capital, we get $68.05 \div 9.09 = 7.48$.

Using the latter definition, an important relation emerges between the ratio defining the organic composition of capital, surplus value, and the rate of profit. If we take $s \div v$, which is the rate of surplus value and divide it by $(c+v) \div v$, we get $s \div (c+v)$, or the ratio of surplus value to total capital invested, which is nothing more than the rate of profit (p). In our example, for 1939, $s \div (c+v) = 9.09 \div 68.05 = 13.4\%$, a rate of profit which could also be obtained by dividing $s \div v$ (100%) by $c+v \div v$, *i.e.*, 7.48.

Now this is not mere mathematical juggling. A profound relationship is revealed in the formula, $p = \frac{s}{v} \div \frac{c+v}{v}$, where

p is the rate of profit. Or we can simply say that the rate of profit = rate of surplus value divided by the ratio defining the organic composition of capital.

To the capitalist the rate of profit is of first importance, because it is the measure of return on his entire capital; therefore, being a capitalist, he is interested, quite naturally, in increasing it. Let us see what he has to accomplish to bring about a higher rate of profit. He must either make the rate of surplus value go up, or the constant component in the composition of his capital go down in relation to variable capital.

There is, as we have shown, a tendency for the rate of surplus value to rise. But the real difficulty facing the capitalist is that under the conditions of modern industry he must increase his investment in constant capital faster than his variable capital. And even though the workers may be pushed to create more surplus value, they still must have relatively more productive machinery and equipment upon which to expend their labor power. This means that the ratio of constant to variable capital will rise, not fall; and it means that total capital invested must increase if the rate of surplus value is to increase. But unless the rise in the rate

of surplus value keeps pace with the change in composition of capital the rate of profit would tend to fall because of the rising constant component of capital. In other words, the profit rate is an expression of two conflicting tendencies; and this lies close to the heart of a fundamental contradiction of capitalism.

We set out to establish the conditions necessary for a rise in the rate of profit, but we see that theoretically there is an inherent tendency for the rate of profit to fall, because the very thing that the capitalist naturally does to increase his rate of surplus value, that is, raise the ratio for the organic composition of his capital, has the unintended tendency of making it harder not only to raise his rate of profit but even to keep it from falling.

Marx has shown that actually there is a historical tendency for the constant component of capital to rise, that is, for constant capital to increase at a rate faster than variable capital. His observations have been confirmed by the experience of the United States. (See Table VIII, pp. 62-63.) It would be expected also that the profit rate has a tendency to fall, unless there is a marked rise in the rate of surplus value.

Let us now examine these tendencies and how they work for American manufacturing over the five decades preceding World War II. Table VIII presents all the statistical data necessary for such an examination.

All data in this table come from Census sources, with the exception of column 6 (surplus value) which we derived from Census sources in the preceding table, and column 7 (value of capital assets) which is based on a combination of Census and *Statistics of Income* data. The last three series in this table, which are the most crucial economic indicators, can be derived from the official data, once we have determined surplus value, which is the economic key to capitalist development. Since our determination of surplus value was deliberately conservative, we can say that probably the trends are in reality much more sharply defined than they appear to be in the table.

Taking a quick look at the over-all picture presented here we note first that the figures in column 10, representing the organic composition of capital, $(c+v) \div v$ rise from 5.44 in 1889 to 7.48 in 1939. This rise is in accordance with Marxist theory (and with common knowledge), namely, that constant capital expands more rapidly than variable capital (wages), as capitalists invest their profits in labor-displacing machinery.

In column 11 we note again how the rate of surplus value has a long-time upward trend, from 71% in 1889 to 100% in 1939, as an expression of the tendency under capitalism for the rate of exploitation to be stepped up.* In column 12 we get the rate of profit, defined as the ratio of surplus value to the sum of constant and variable capital. As we shall see, this is a rather simplified definition of the profit-rate, which ignores questions of "turnover," but it reveals some interesting aspects of the functioning of American capitalism. Does this profit-rate show a long-time tendency to decline? A slight decline is evident in the first half of the fifty-year period considered, but in the 'twenties and the 'thirties there appears to be some stabilization of its movement, with 1929 reaching the highest point in the fifty year period.

This apparent reversal of the decline in the profit rate in the last two decades before World War II is an interesting phenomenon, but, far from being a sign of a revitalization of American industrial capitalism, it can be shown to have quite the opposite implications. But first, let us dispose of the technical question of "turnover."

THE QUESTION OF TURNOVER

In our somewhat over-simplified table we assume a turnover of once a year. That is, we assumed that in each year considered,

* If we had taken the rate of s.v. in 1939 at 125%, as we could have with possibly even more justification than the 100% figure, the corresponding 1889 rate would have been 89%.

Table VIII. Surplus Value, Capital and Rate of Profit in Five Decades of Manufacturing

(BILLIONS OF DOLLARS)

	1	2	3	4	5	6
	VALUE OF	WAGES	COST OF	VALUE	PROFITS	SURPLUS
YEAR	PRODUCT	V	MATERIALS	ADDED	AND	VALUE
			AND FUEL	IN MANU-	OVERHEAD	
				FACTURING	4 — 2	8
				1 — 3		
1889	9.37	1.89	5.16	4.21	2.32	1.35
1899	13.00	2.32	7.34	5.66	3.34	1.95
1899*	11.03	1.89	6.39	4.65	2.76	1.62
1904	14.25	2.44	8.23	6.02	3.58	2.30
1909	19.95	3.21	11.78	8.16	4.95	2.90
1914	23.05	3.71	13.81	9.24	5.53	3.20
1919	59.96	9.61	36.23	23.74	14.13	8.23
1921	41.65	7.45	24.40	17.25	9.80	5.70
1923	58.18	10.15	33.61	24.57	14.42	8.40
1925	60.81	9.98	35.14	25.67	15.69	9.10
1927	60.34	10.10	34.01	26.33	16.23	9.50
1929	67.99	10.88	37.40	30.59	19.71	11.50
1931	39.83	6.69	21.22	18.60	11.91	7.00
1933	30.56	4.94	16.55	14.01	9.07	5.30
1935	44.99	7.31	26.44	18.55	11.24	6.60
1937	60.71	10.11	35.54	25.17	15.06	8.80
1939	56.84	9.09	32.16	24.68	15.59	9.09

* See explanation below.

Source: Columns 1, 2, 3 and 4 from *Statistical Abstract of the United States, 1942*, p. 885. Two sets of data are provided for 1899, for prior to that year the Census of Manufactures included hand and neighborhood industries excluded thereafter. There is a similar but minor discontinuity in 1914 when the Census began to exclude establishments having products of less than \$5,000.

Column 6 is derived as indicated in Table VII.

Column 7 is taken mainly from *Employment in Manufacturing, 1899-1939* by Solomon Fabricant (National Bureau of Economic Research, 1942, p. 256) and for 1919-1933 represents estimate of net capital assets (in current dollars) at the end

	7	8	9	10	11	12
	VALUE OF CAPITAL ASSETS INCLUDING LAND	TOTAL CONSTANT CAPITAL 3 + 7 C	TOTAL CAPITAL 2 + 8 V + C	ORGANIC COMPOSITION OF CAPITAL $2 + 8 \div 2$ $\frac{v + c}{v}$	RATE OF SURPLUS VALUE $6 \div 2$ s/v PERCENT	RATE OF PROFIT $6 \div 9$ s/(v+c) PERCENT
1889	3.24	8.40	10.29	5.44	71	13.1
1899	5.02	12.36	14.68	6.33	84	13.3
1899	4.06	10.45	12.34	6.52	85	13.0
1904	5.70	13.93	16.37	6.71	94	14.1
1909	8.46	20.24	23.45	7.30	91	12.5
1914	11.60	25.40	29.12	7.84	86	11.0
1919	24.60	60.83	70.44	7.32	86	11.7
1921	26.60	51.00	58.45	7.85	77	9.8
1923	27.20	60.80	70.96	6.98	83	11.9
1925	27.70	62.84	73.82	7.39	91	12.3
1927	28.20	62.20	72.30	7.16	94	13.1
1929	29.00	66.40	77.28	7.10	106	14.9
1931	27.80	49.02	55.70	8.32	105	12.6
1933	25.60	42.15	47.10	9.53	107	11.2
1935	24.40	50.84	58.15	7.95	90	11.3
1937	24.90	60.44	70.55	6.97	87	12.5
1939	26.70	58.86	67.95	7.48	100	13.4

of the year, based on consolidated reports of manufacturing companies to the U.S. Bureau of Internal Revenue. For 1933-39 the data are extrapolated by means of corresponding data based on unconsolidated reports. For the period 1889-1919 our estimates are based on several sources: The 1904 estimate of the value of capital assets in manufacturing comes from the *Census of Manufactures*. We also have estimates of the "value of machinery" in 1900, 1904, 1909 and 1912 (from *Wealth, Public Debt and Taxation*, Washington, D. C., 1922) and estimates of "wealth in manufacturing" (from Doane's *The Measurement of Wealth*, Harpers, N. Y., 1926); all these figures were interpolated to yield census year estimates, which were then linked to our basic 1919-1933 series.

American manufacturers have on hand, in addition to the value of their fixed capital in the form of machinery, buildings and land, sufficient working capital to pay, in advance, one year's wages and the cost of all materials and fuel to be consumed in the year. In actual practice, they need a smaller working capital because of their income from sales during the year.

The basic trends in the table, however, are not affected by this simplification, which Marx used in much of his reasoning, after demonstrating that it did not alter the basic relations he had established. Thus, if we assume a turnover of more than once a year, the total capital invested would be smaller and the rate of profit on total invested capital correspondingly higher. Over the years, the rate of turnover probably has been speeded up somewhat, so that manufacturers now may need less working capital than they did formerly and this tendency may, in theory, retard the tendency for the profit rate to fall. In actual practice, however, as we shall show, the growth of capital has in recent times so far outrun investment opportunities that the working capital of modern corporations is generally more than ample for their needs. Since the capital is there, whether strictly needed or not, profit rates should be based on it. Indeed, this sheer growth of capital intensifies the decline in the rate of profit.

Let us now take 1919 as a dividing line and first consider what happened in the previous three decades. These thirty years were the real hey-day of American capitalism. There were of course periodic crises, but their effects were quickly shaken off. The most striking statistical feature of this period is *growth*. Starting with the profit rate we note a tendency to fall, but no manufacturer would have worried much about it, because his absolute mass of profit grew by leaps and bounds. Thus, significant gains in surplus value are recorded for each census year from 1889 to 1914, with a tremendous jump in 1919 reflecting the high profit during World War I.

For this period, the declining profit rate is not an indication of

the illness of American manufacturing but rather of its growing maturity. It reflects the fact that capital grew at an even more dizzy pace than profits (*i.e.*, surplus value).

How did labor fare in this idyllic period? We can note here that the rate of surplus value shows an over-all rise, from 71% in 1889 to 86% in 1919. However, in the period 1904-1919 the rate of surplus value actually fell, for this was a period in which the demand for manufacturing labor was high enough to keep the spread between wages and surplus value from widening greatly.* On the whole, the picture presented is not too bad, and indeed, is the kind of picture that most textbooks on economics present when extolling the virtues of our "free enterprise" system. All the important economic categories, wages, capital and surplus value, were growing fast enough, presumably, to keep everybody happy.

This period from 1889 to 1919 illustrates how the declining tendency of the rate of profit works out as a natural consequence of the sheer growth of capital. Thus, in 1889, American manufacturers paid out \$1.89 billion in wages, realizing a surplus of \$1.35 billion, or a rate of surplus value of 71%. The organic composition of capital was comparatively low, the ratio of total capital, \$10.29 billion to wages being 5.44. The rate of profit, 13.1%, may be obtained by dividing 71% by 5.44.

By 1919 the rate of surplus value had risen to 86%. If there had been no change in the organic composition of capital, the 1919 rate of profit would have been $86\% \div 5.44 = 15.8\%$, representing an increase in profitability over 1889 due solely to the rise in the rate of exploitation. In actual fact, however, the ratio defining the organic composition of capital rose from 5.44 to 7.32; therefore the 1919 profit rate obtained by dividing 86% by 7.32 is 11.7%. Thus, due solely to the change in the organic composition of capital, the profit rate declined from 1889 to 1919.

* See Table XIX, p. 98, for more discussion of the position of the worker in manufacturing during this period.

This tendency for the profit rate to decline always emerges when the organic composition of capital rises more rapidly than the rate of exploitation. In the earlier stages of capitalism, however, this decline is of no great concern to capitalists, since the mass of surplus value is expanding so rapidly.

DECLINE IN GROWTH OF CAPITAL

After 1919, however, there is a marked change in this rosy picture. Even in the frenzied 'twenties, commonly believed to be capitalism's golden age, there are ominous signs of a hitherto unknown slowing down of the wheels of industry. At first glance, looking at the rate of profit, nothing seems to be amiss. The profit rate shows a slight rise. There is nothing to disturb the manufacturer in the continued rise in the rate of surplus value, from 86% in 1919 to 100% in 1939.

We notice, however, that there is something wrong in the fact that the ratio representing the organic composition of capital has ceased to rise. To explain this we must take a long look at our series for the value of capital assets. In the first thirty years of our record such assets multiplied eight times. But after 1919, growth in capital assets fell off to a mere 10% by 1929, and thereafter the value of capital assets actually *declined*. Here we have the explanation for the apparent rise in the profit rate in the period 1919-1939, for even a constant or declining volume of profits will yield an arithmetically rising profit rate if the constant capital making up the denominator falls fast enough. Looking at column 6, we see that no very great rise in the volume of surplus value can be discerned in this period, and in fact the 1939 prewar peak fell quite a bit below the 1929 high point.

We would have to review the entire economic history of capitalism to appreciate how unprecedented it is for capital to cease to grow, and for the mass of profits to begin to decline. Marx regarded the accumulation of capital as the very heart of

capitalism's development and as the chief motivating drive of the capitalist. The decline in capital assets does not mean that investment in labor-displacing machinery has diminished, for we can see that after 1919, wages, too, had for the first time ceased to grow. Accompanying this decline in wage payments in manufacturing is a growing mass of unemployment not shown in this table.

The decline in constant capital noted here reflects partly the fall in capital values beginning with the 1929 crash, and also the phenomenon of "idle money" which characterized the 'thirties in the popular mind. But it is wrong to think of it as peculiar to the 'thirties, for even in the previous decade the very slight growth of capital was itself a symptom of bad health in the economic system.

It should be emphasized that this fall in capital values makes the apparent stability of the profit rate in the last two decades a quite fictitious indicator of the true profitability of the system. It is as if a capitalist who operated two plants in 1929 found it necessary to close one in 1939 and "write off" the book value of the idle plant. His volume of profits may be cut in half, let us say, but since he has arbitrarily halved his capital investment, his accounts (which are mirrored in our Census statistics) will show no drop in his profit rate.

MARX ON THE FALLING RATE OF PROFIT

Having established the statistical record underlying a half-century of capitalist enterprise in America, it is instructive to turn back to what Marx wrote over eighty years ago, concerning the tendencies to be expected in the functioning of capitalism. In the third volume of *Capital*, in the famous part entitled "The Law of the Falling Tendency of the Rate of Profit," we find an amazingly foresighted analysis of the further development of capitalism, into which the American record fits.

First, on the organic composition of capital, he wrote:

“. . . it is one of the laws of capitalist production that its development carries with it a relative decrease of variable as compared with constant capital, and consequently as compared to the total capital, which it sets in motion. This is only another way of saying that the same number of laborers, the same quantity of labor-power set in motion by a variable capital of a given value, consume in production an ever increasing quantity of means of production, such as machinery, and all sorts of fixed capital, raw and auxiliary materials, and consequently a constant capital of ever increasing value and volume, during the same period of time. . . .”*

Again, “since the mass of the employed living labor is continually on the decline compared to the mass of materialized labor incorporated in productively consumed means of production, it follows that that portion of living labor, which is unpaid and represents surplus value, must also be continually on the decrease compared to the volume and value of the invested total capital. Seeing that the proportion of the mass of surplus value to the value of the invested total capital forms the rate of profit, this rate must fall continuously.”

But, he goes on, this law of the falling tendency of the rate of profit (Marx always referred to this law as a “tendency” for he recognized that the fall could be retarded and even checked for a time by counteracting factors) “does not argue in any way against the fact that the absolute mass of the employed and exploited labor set in motion by the social capital, and consequently the absolute mass of the surplus-labor appropriated by it, may grow. . . .” Thus, as we saw to be true of the period 1889-1919, in spite of the steady fall of the rate of profit, the mass of surplus value grew rapidly. This growth was bound to occur, since “given a certain laboring population, the mass of surplus

* *Capital*, Vol. III, Chicago. For this and following quotations, see pages 247-313.

value, and therefore the absolute mass of profit, must grow if the rate of surplus-value increases by a prolongation or intensification of the working day, or by a lowering of the value of wages through a development of the productive power of labor, and must do so in spite of the relative decrease of the variable capital compared to the constant."

But now we encounter a fly in the capitalist ointment. As the organic composition of capital changes through the relative increase of its constant part, and the employment of a *given* quantity of capital yields smaller quantities of surplus value (another way of saying the profit rate falls) then the system "requires an increasing mass of total capital for the purpose of setting in motion the same quantity of labor-power and absorbing the same quantity of surplus-labor. Consequently the possibility of a relative surplus of laboring people develops to the extent that capitalist production advances. . . ."

In other words (foreshadowing the period of the 'twenties) once capital investment begins to slacken the fearsome pace required to offset the consequences of its rising organic composition and falling rate of profit, the specter of crisis and unemployment begins to loom. "The increasing productivity of labor thus creates necessarily and permanently an apparent overpopulation of laboring people."

In time, too, the problem of an oversupply of capital will emerge, for the profit rate is "the incentive of capitalist production" . . . and "its fall checks the formation of new independent capitals and thus seems to threaten the development of the process of capitalist production. It promotes overproduction, speculation, crises, surplus-capital along with surplus-population."

"The periodical depreciation of the existing capital, which is one of the immanent means of capitalist production by which the fall in the rate of profit is checked and the accumulation of capital-value through the formation of new capital promoted disturbs the existing conditions, within which the process of

circulation and reproduction takes place, and is therefore accompanied by sudden stagnations and crises in the process of production."

The "absolute overproduction of capital" appears "as soon as a point is reached where the increased capital produces no larger, or even smaller, quantities of surplus value than it did before its increase. . . . In reality the matter would amount to this, that a portion of the capital would lie fallow completely or partially (because it would first have to crowd some of the active capital out before it could take part in the process of self-expansion) while the active portion would produce values at a lower rate of profit, owing to the pressure of the unemployed or but partly employed capital." This conflict of capitals even "implies the necessity of making unproductive, or even partially destroying, some capital. . . . This would affect to some extent the material substance of capital, that is, a part of the means of production, fixed and circulating capital, would not perform any service as capital; a portion of the running establishments would then close down."

The above quotations indicate that Marx foresaw how the basic tendencies of capitalist development breed certain inner tensions and instabilities, all of which are reflected in our statistical record. But these quotations do not constitute by any means a complete explanation of the "business cycle" as an inevitable part of the capitalist system, for the contradictions which flow from the capitalists' pursuit of profits do not stop here. In the section of *Capital* from which we have been quoting, Marx was mainly concerned with tracing the consequences of the tendency for the profit rate to fall. But Marx regarded them as but half of the story:

"Now comes the second act of the process. The entire mass of commodities, the total product, which contains a portion which is to reproduce the constant and variable capital as well as a portion representing surplus value, must be sold. If this is not

done, or only partly accomplished, or only at prices which are below the prices of production, the laborer has been none the less exploited, but his exploitation does not realize as much for the capitalist. . . . The conditions of direct exploitation and those of the realization of surplus value are not identical. They are separated logically as well as by time and space. The first are only limited by the productive power of society, the last by the proportional relations of the various lines of production and by the consuming power of society.

“This last-named power is not determined either by the absolute productive power nor by the absolute consuming power, but by the consuming power based on antagonistic conditions of distribution, which reduces the consumption of the great mass of the population to a variable minimum within more or less narrow limits. The consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital and a production of surplus-value on an enlarged scale. This is a law of capitalist production imposed by incessant revolutions in the methods of production themselves, the resulting depreciation of existing capital, the general competitive struggle and the necessity of improving the product and expanding the scale of production, for the sake of self-preservation and on penalty of failure. The market must, therefore, be continually extended so that its interrelations and the conditions regulating them assume more and more the form of a natural law independent of the producers and become ever more uncontrollable. This internal contradiction seeks to balance itself by an expansion of the outlying fields of production. But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the condition of consumption rests. On this self-contradictory basis it is no contradiction at all that there should be an excess of capital simultaneously with an excess of population.”

Here we have the ultimate explanation of the savage alterna-

tion of booms and depressions expressed in "overproduction" relative to the consuming power of society, and in the conflict between capitalism's huge production potential and the pitifully inadequate market for the goods imposed by the ever-increasing exploitation of workers.

So far we have confined our statistical discussion to the bare bones of the anatomy of American manufacturing. All the trends which emerge here can be given flesh and blood only when the economic history of the times is reviewed. The accelerated decay of the American economy as a reflection of the general world crisis of capitalism can be dated as far back as 1914, for the entire history since then can be subdivided into periods of depression and periods of prosperity due to war and the reconstruction of the ravages of war. Today the urge for "normalcy" is apparent on all sides. After the troubled days of post-World War II reconversion, people long for the old times, for more normal conditions. But in all truth there has been nothing like "normalcy" in the United States for many a long year, certainly not since 1914.

THE UNITED STATES ECONOMY SINCE 1914

Let us review briefly the various economic stages this country has passed through since the fateful year which witnessed the outbreak of World War I. From 1914 to 1919, capacity production was maintained on the basis of war requirements. Then 1920 saw an inflationary boom followed by a two-year decline.

The years 1922 to 1929 were a fabulous boom period, based largely on the replacement of shortages and damages arising from World War I; but even then it was not a period of full production, as revealed in the well-known Brookings Institution study.* This showed that even at the peak of the boom only 80% of all industrial capacity was in use. Besides, close students of

* Edwin G. Nourse and Associates, *America's Capacity to Produce*, 1934.

"business cycles" note in this period two minor cyclical declines that occurred in 1924 and 1927. The shattering crash of 1929 opened the way for eleven long lean years, marked by stagnant production and chronic mass unemployment. It was only the advent of World War II that changed the picture and brought with it a new period of industrial revival. And today we have the ironic fact that most economists are pointing complacently to a coming "recession" whose severity, as they see it, may be tempered by the wartime accumulation of consumer demand and government outlays for "rearmament." They seem not to realize that this is an admission that whatever postwar prosperity we may have is largely due to the war itself and preparations for new wars.

To summarize, then: In the thirty-two years between 1914 and 1946 we had only two peaks of full production coinciding with the two world wars which open and close the period. Taking the inter-war years, the period from 1919 to 1929 saw at least four depression years. The next period from 1930 to 1940 saw at least six depression years. Of the twenty-two years between the wars, a total of ten years were depression years. But that does not mean that the remaining years were boom years. We have already pointed out that there was never full production during this time; at the most there were half a dozen fairly good years.

As we know, unemployment after the 1929 crash was chronic and did not disappear until 1943, the third year of war production. And we must remember that even during the long depression of the 'thirties, when the federal government poured nearly \$30 billion into business, the results were negative. The peak of production achieved in 1937 was barely on a level with the peak of 1929, eight years before; but on the basis of this feeble showing big business went on a campaign against federal "spending" and succeeded in halting the pump-priming program of the Roosevelt government. There followed the rapid slide of

1938, which lasted until the stimuli of World War II made themselves felt.

The upshot of this dismal recital is that there was nothing approaching normal times in the United States for the thirty-two years between 1914 and 1946. At no time during this long period when it had to depend for its markets exclusively upon the purchasing power of the American people did capitalist industry succeed in operating at full capacity. It was only under the extraordinary circumstances of two world wars that full production was achieved. Replacement of war shortages and destruction accounted for a few more years of high economic activity. The rest of the time, even with extensive government expenditures, we had depression and near-depression.

Again, it would be fruitful to interpret the short-term fluctuations in our statistical indicators in terms of the relevant economic events underlying them. Thus, we might be able to associate the surprising drop (from 107% to 87%) in the rate of surplus value in 1933-37 with the emergence of militant trade unionism and the C.I.O. in that period, and contrast it with the rapid rise in the ratio (from 77% to 106%) in the 1921-29 period in which American trade unionism, languishing under the dead hand of the Gompers class-collaboration theory, looked to rising productivity rather than to union struggle to improve workers' conditions. But these are considerations we must leave for other investigators. Our prime purpose here is to analyze the long-time underlying factors within the capitalist structure.

These factors can best be summarized as follows: Historically, by the very logic of its contradictory development, capitalism is dogged by the threat of a declining profit rate and also the threat of a declining volume of profits. This makes it easier to understand the frenzied efforts of capitalists to escape this trend by attempting to raise the rate of exploitation. Over the years the American capitalists have succeeded in staving off both threats and in raising the rate of exploitation except during tempo-

rary setbacks due to militant labor action or in special periods, such as war, when the demand for labor may go up sufficiently to offset for a while the long-term rise in the rate of surplus value.

Now the rise in the rate of surplus value is brought about in two ways. First, in addition to the usual methods of cutting wages and extending working time, there is the obvious method of speeding up and increasing the intensity of work, whereby the capitalist compels the laborer to produce increasing amounts of surplus value in the same time intervals. But more important is the method of increasing what Marx called the "relative surplus value" by the introduction of labor-saving machinery. This greatly increases the *productivity* of the worker, as well as, in most cases, the intensity of his exertion. As a smaller portion of his working day is thus required to replace the value of his labor power, more time is left for the production of surplus value.

And now we come to the pay-off—the crowning contradiction which in the end makes all these capitalist efforts self-defeating. In the long run, the increase in labor-saving machinery and the associated increase in capital, far from staving off a drop in profitability, lead to two contradictory results:

1. The displacement of labor (as evidenced in our tables by the absence of any significant rise in wage payments over the two decades 1919-1939), with the accompanying growth of unemployment, shrinks the market for the consumer goods produced in peacetime.

2. At the same time that the market is narrowed by growing unemployment, and by the lowering of wages which goes with unemployment, the growth of capital and labor-displacing machinery expands productive capacity enormously.

And here we have an important contributing cause of what capitalist economists call the "business cycle," which is the periodic expression of the contradiction between an expanding productive capacity and a contracting market.

DECLINE IN INTEREST RATES

Note how this inexorable chain of events stems from the capitalist's simple desire to make profits. And yet it has become harder for him to make profits, despite the fact that cutting wages, intensifying labor, and introducing new machinery all commend themselves to him as short-cuts to that end. Thus, as his invested capital grows, he has to realize a greater and greater volume of profits in order to maintain a given rate of profit. And, finally, when the volume of profits begins to decline, he can no longer realize adequate profits from the investment of new capital. This is the true crisis stage of mature capitalism. That our overabundance of capital dates back to the end of World War I is evidenced not only by the falling off in capital assets in manufacturing after 1919, but also by such indicators as the steady decline in interest rates dating back to that period. This is indicated clearly in the following table which shows the decline in interest rate on various types of bonds and loans:

Table IX. Declining Rate of Interest on Bonds and Commercial Loans, 1919-1939

	U. S. TREASURY BONDS (PERCENT)	INDUSTRIAL CORP. BONDS (MOODY'S) (PERCENT)	PUBLIC UTILITY BONDS (MOODY'S) (PERCENT)	N. Y. C. OPEN MARKET RATE SHORT-TERM LOANS (PERCENT)
1919	4.73	6.18	6.21	5.56
1924	4.06	5.90	5.61	3.88
1929	3.60	5.31	5.14	5.85
1934	3.12	4.52	5.40	1.02
1939	2.36	3.30	3.48	.59

Source: Federal Reserve *Bulletin*, successive issues.

Declining interest rates are of course one expression of the general tendency for the rate of profit to decline.

So far we have placed chief emphasis on the role of surplus value and the rate of profit in the functioning of capitalism, but we have indicated that equally important is the effect of the

appropriation of surplus value upon the working class and its consuming power. In our next section we shall present some figures on the status of the American worker in recent times which show how essentially narrow is the home market for the vast quantity of goods which our productive machine is equipped to turn out.

CHAPTER VI

The American Standard of Living

The big business press carries on an endless campaign of propaganda about what it calls the American standard of living. This standard of living, we are told, the product of "free enterprise," is the highest in the world, and is ever attaining new heights.

Let us investigate these claims in the light of cold statistics, starting with the most recent experience, still fresh in everyone's memory—the war period, 1939-1945. What happened to the American standard of living during World War II?

DURING WORLD WAR II

The war called forth a tremendous effort on the part of the American people, particularly the industrial workers. We must confine ourselves to the civilian population, since it would be impossible to present statistics that could do justice to the contribution and sacrifices of the millions of our people who entered the armed forces.

The war brought about such a period of economic activity as could be only a dream during the long depression of the 'thirties. Industrial production reached new all-time highs, doubling any previous records. Even though the greater part went for military requirements, the smaller share that remained for civilian use still enabled the American people to consume more goods than ever before.

During the war we attained full employment. Certainly not since 1929, if ever before, had the number of unemployed fallen to the low figures of 1943 and 1944. If only temporarily, the dead weight of job insecurity was lifted.

Full employment and the doubled national income of wartime put ideas into people's heads: "If we can have full employment in wartime, why can't we have it in peacetime?" Of course the insatiable demands of a world war assured guaranteed markets and high profits, providing conditions that do not exist when the final sale of goods depends exclusively upon the purchasing power of the civilian population. Even so, the war experience suggested that some type of national planning might be able to produce full employment and full production in peace as well as in war; that we should not have to return to the prewar days of low production, unemployment, insecurity, and general stagnation.

But we must stop to raise the question: "Did the leopard change its spots?" Is there any reason to think that the war did transform American capitalism? To answer such questions we must go behind appearances; we must probe more deeply into the actual conditions of the working class during the war.

Basically to measure working-class conditions we must find out what share of the national product goes to labor. We have already used national income figures in our first approximation of the rate of surplus value. In the next table we approach the same problem from a different angle. We balance the worker's output against his real wage, arriving at an index which indicates the share of his own production that finally goes to the worker. We call this an index of the worker's *relative position*; by equating the worker's contribution in the form of production to his withdrawal in the form of real wages we measure the worker's position in relation to the entire manufacturing industry.

Let us apply this measure for the war years. The next table shows how we arrive at an index of the worker's relative position.

Table X. Relative Position of Manufacturing Employees in Wartime

	1	2	3	4	5	6	7	8
	OUTPUT OF MANUFACTURERS	FULL-TIME EMPLOYEES	OUTPUT PER EMPLOYEE	WAGES + SALARIES	AVERAGE ANNUAL EARNINGS	PRICE INDEX	AVERAGE REAL ANNUAL EARNINGS	RELATIVE POSITION OF EMPLOYEE
1939	100	100	100	100	100	100	100	100
1940	116	109	106	115	105	101	104	98
1941	154	132	117	160	121	107	113	96
1942	194	153	127	227	148	122	121	95
1943	237	175	135	301	172	137	126	93
1944	231	171	135	316	184	144	128	95
1945 (Jan.-June)	224	162	138	304	188	146	129	94

Source: For 1939-1944, columns 2, 4, 5 are from U.S. Department of Commerce, *Survey of Current Business*, June, 1945, pp. 19-21; November, 1945, p. 23. Column 6 is based on War Production Board report, *American Industry in War and Transition, 1940-1945*, Part II, p. 27, where this deflation factor was used to reduce consumer expenditures for goods and services from current dollars to 1939 dollars. Column 7 is derived from columns 5 and 6. Column 1 is from Federal Reserve Board monthly bulletins. Column 3 is derived from column 1 and column 2. Column 8 is column 7 divided by column 3.

Data for 1945 are taken from U.S. Bureau of Labor Statistics indexes of manufacturing payrolls, employment and cost of living, with column 5 derived from columns 2 and 4. The index numbers have been rounded off.

This table tells in compact form the wartime story of the worker employed in manufacturing. The important indices to note are columns 3 and 7. They show how real wages increased, even in spite of rising prices, from 100 in 1939 to 129 in the first half of 1945; but output per worker increased even more, from 100 in 1939 to 138 in the first half of 1945. When we figure the ratio between real wages and output per worker, as shown in column 8, we find that the relative position of the worker in manufacturing fell from 100 to 94 during the years 1939 to June, 1945, or a drop of 6%.

To put it another way, the worker's contribution to the product of the manufacturing industries grew faster during the war than his own final share of the output.

Incidentally, we have ended this table at June, 1945, in order to avoid a new set of influences arising from reconversion. The purpose here is to indicate how during the war, despite conditions of full production and full employment, the worker's relative position declined.

To demonstrate that the statistics in manufacturing are not accidental, nor an isolated case, but entirely representative of the trend in the condition of the American working class as a whole, two additional tables are given below. The first refers to the bituminous coal miners who, it will be remembered, succeeded in taking advantage of the war situation to push up their wages beyond the limits provided by the Little Steel Formula, which operated in the other branches of industry. (See Labor Research Association, *Labor Fact Book* 7.) But even so, they did not escape the general tendency of capitalism to lower the relative position of the worker.

Table XI. Relative Position of Coal Miners in Wartime

	1	2	3	4
	OUTPUT PER WORKER	AVERAGE ANNUAL WAGE	REAL ANNUAL WAGE	RELATIVE POSITION OF WORKER
1939	100.0	100.0	100.0	100.0
1940	104.1	100.7	99.7	95.8
1941	118.7	127.6	119.2	100.4
1942	125.6	144.2	118.2	94.1
1943	143.5	181.4	132.4	92.3
1944	164.3	216.4	150.3	91.5
1945 (Jan.-June)	165.1	229.0	157.0	95.1

Source: All columns except 4 are based on data of the Bureau of Labor Statistics. The method employed is described in note to Table X.

Here we see that the miners were caught in the same situation as the factory workers, even though they succeeded in raising

their real wages from 100 in 1939 to 157 in the first half of 1945. Their productivity went up even faster, from 100 in 1939 to 165.1 in the first half of 1945, with the result that their relative position fell by about 5% during the period of the war.

The table below, covering railroad workers, illustrates an extreme case where real annual earnings failed to make any marked increase during the war, while productivity went up by more than 50%, and in fact reached 70% above prewar in 1943. At the peak of wartime railway activity, that is, in the year 1944, the relative position of the railway workers was down nearly 40% from the 1939 point of comparison. This precipitous drop in railway workers' relative position indicates that the figures showing the drop for manufacturing workers are conservative and represent no exaggerated or isolated trend.

Table XII. Relative Position of Railroad Workers, 1939-1945

	1	2	3	4
	REVENUE TRAFFIC PER EMPLOYEE	REAL PAYROLLS	AVERAGE ANNUAL EARNINGS	RELATIVE POSITION OF WORKER
1939	100.0	100.0	100.0	100.0
1940	106.5	104.9	100.6	94.4
1941	121.0	119.5	102.5	84.7
1942	150.5	133.4	102.1	67.8
1943	170.2	143.9	103.2	60.6
1944	167.5	150.2	103.1	61.6
1945 (Jan.-June)	155.2	147.0	100.5	64.8

Source: Bureau of Labor Statistics Release, May, 1946. *Productivity and Unit Labor Cost in Steam Railroad Transportation, 1935-1945*. (See note to Table X for method of computation.)

In connection with these three tables it should be pointed out that a great part of the worker's increased wartime wages was due to long hours of overtime at premium pay. It was mainly this intensified effort that enabled him to keep abreast of the rising cost of living.

Now let us view the war period as a whole. The tremendous industrial requirements of the war created special conditions,

which in turn created illusions. On the surface it would appear that during the war the conditions of the workers improved; certainly full employment was a boon. But when we look below the surface we find that one of the basic processes of capitalism continued to operate; in fact, it speeded up at the expense of the workers. The disproportion in the distribution of the national income continued to grow, in that a worker producing more received a smaller share of total value produced.

PRELUDE TO 1929

So much for our preliminary view of the recent wartime period; now let us step back for a longer perspective.

The year 1929 was the heyday of prewar capitalism. It stands out as a legendary landmark—the final burst of production before the crash and the long depression. The period that followed 1929 has much to teach us about the standard of living; but before we enter our discussion of that era, it will help a great deal in our understanding of the growth of the boom and crash if we pay a little attention to the so-called “golden age” of capitalism in America. Table XIII (p. 84) gives us the material for analysis of the period 1919-1929.

During this period the relative position of the workers in manufacturing declined by 25%. The key columns to examine are employment, output per worker, and real annual earnings per worker. Employment did not increase at all. In fact, during the period it was generally lower than in 1919-1920. By 1929 the average worker was producing 53% more than he did in 1919 but he received only 15% more in real wages.

This series of figures shows that even during this period the distribution of real income ran sharply against the workers. Their purchasing power was curtailed while their output increased. This is but another way of saying that the national product was increased rapidly due to the swift rise in labor

Table XIII. Relative Position of Workers in Manufacturing, 1919-1929

	MANUFACTURING PRODUCTION	EMPLOYMENT	OUTPUT PER WORKER	AVERAGE ANNUAL EARNINGS	COST OF LIVING	REAL ANNUAL EARNINGS PER WORKER	RELATIVE POSITION
1919	100	100	100	100	100	100	100
1920	103	100	103	120	115	104	101
1921	78	77	101	100	103	94	93
1922	103	85	121	98	96	101	83
1923	119	97	123	108	98	110	89
1924	112	90	124	109	98	111	90
1925	125	94	133	110	101	108	82
1926	132	95	139	112	102	109	79
1927	130	93	140	113	100	113	81
1928	136	93	145	114	98	116	80
1929	153	100	153	113	98	115	75

Source: Federal Reserve Board, *Bulletin*, current issues. The method follows that of preceding tables.

productivity while a very small fraction of the increase went to raise the living standard of the workers. The lion's share of the increase went to the capitalists. It was this very sharp disparity between the expanded volume of production and the relatively restricted incomes of the workers that helped bring on the violent crash of 1929 and the ensuing great crisis and depression.

Incidentally, this brief review of economic history, 1919-1929, provides the material for an answer to those who see in increased labor productivity within the capitalist system the solution of all economic difficulties.

Under the conditions of capitalism with wages lagging behind, increased labor productivity serves to reduce the workers' share of the national product, and to increase profits. It intensifies the exploitation of the workers and aggravates the tendencies that generate depressions.

THE LONG DEPRESSION, 1929-1940

We are now ready to discuss the period between the crash of 1929 and the outbreak of World War II. We have shown the declining relative position of the working class for two distinct "boom" periods in the recent history of American capitalism. We now have a different period to consider, during which living standards not only for workers but for the entire population declined absolutely.

Table XIV gives the record of over-all industrial production for the years 1929 to 1940. It shows also what happened in the spheres of durable and non-durable manufactures. The figures are put on an index basis with the 1929 level equal to 100.

In the second part of the table we show the same figures adjusted to a per capita basis, because the amount of commodities produced per individual in the population is the measure of the potential standard of living.

**Table XIV. Indexes of Industrial Production
in the U. S., 1929-1940**

	INDEXES OF OUTPUT			ON PER CAPITA BASIS		
	1 TOTAL INDUSTRIAL OUTPUT	2 DURABLE MANU- FACTURES	3 NONDURABLE MANU- FACTURES	4 TOTAL INDUSTRIAL OUTPUT	5 DURABLE MANU- FACTURES	6 NONDURABLE MANU- FACTURES
1929	100	100	100	100	100	100
1930	83	74	90	82	73	89
1931	68	51	85	67	50	83
1932	53	31	75	52	30	74
1933	63	41	85	61	40	83
1934	68	49	87	65	47	84
1935	79	63	97	76	61	93
1936	94	82	108	90	78	103
1937	103	92	114	97	87	108
1938	81	59	102	76	56	96
1939	98	53	116	92	78	108
1940	114	105	124	106	97	115

Source: Federal Reserve *Bulletin*; current issue.

After the 1929 crash, per capita production did not again attain the 1929 level until eleven years later, in 1940, when the stimulus of World War II had already begun to make itself felt on the American economy.

For the decade of the 'thirties, the characterization "ever attaining new heights" does not apply. As a matter of fact, this period of decline and stagnation is unique and unprecedented in our economic history.

Now look at the year 1937 when another downward trend began. In that year production on an absolute basis was slightly over 1929, but on a per capita basis it was slightly under 1929. This also marks a first in American economic history. Never before, in the long record of business cycles prior to 1937, had a peak failed to come out substantially above the peak year in the preceding cycle.

We should note also the significance of the 1938 crash that followed the 1937 peak. The rate of decline in industrial production from 1937 to 1938 was sharper and faster than the decline in 1929 and 1930; it equaled the speed with which the bottom dropped out in 1932.

The specific characteristics of 1937-38 are worth noting:

1. Coming in a period of general decline and stagnation, the 1937 peak failed to achieve levels substantially above the previous peak in 1929.
2. The 1937 peak occurred without materially reducing the mass army of unemployed.
3. The 1937 peak occurred without a full recovery in the output of producers' durable goods.
4. And yet the crash of 1938 equaled in rapidity of decline the worst year in the 1932 slide.

The third point merits further comment. In the over-all industrial picture, there is a striking divergence between the output of durable and non-durable manufactures. Whether measured on an absolute basis or on a per capita basis, durable manufactures

did not recover until the year 1940 with the increase in war production.

We would find a similar picture if total output were divided into consumers' goods and producers' goods, a division which the Federal Reserve Board, unfortunately, does not carry through.* The low level of durable goods throughout the thirties is of course part of the same phenomenon discussed in the preceding section where it was pointed out that the volume of fixed capital ceased to grow after 1929. In no other crisis in the history of American capitalism can it be shown that activity in the basic means of production actually declined from one peak to the next. This indicates the presence of disease in the very heart of the economic system, and the fact that it took a second world war to relieve the crisis, points to the seriousness of the disease.

CONSUMPTION OF GOODS AND SERVICES, 1929-1940

Table XV (p. 88) presents a picture of consumption during the 'thirties; it is taken from Department of Commerce estimates of actual consumer expenditures in those years. We have broken down these figures into the sums spent for food (including tobacco) and for all other goods and services. The final indexes have been adjusted for price and put on a per capita basis.

* We can, however, cite data on producers' durable equipment, taken from gross national product estimates. ("National Income Supplement," *Survey of Current Business*, July, 1947, p. 19.) This series which represents purchase of basic means of production declined even further than the series for durable goods and never did recover during the prewar period. The 1940 peaks stood 5% below the 1929 level; on a per capita basis, it had fallen by 13%.

Table XV. Consumer Expenditures, 1929-1940

	ACTUAL CONSUMER EXPENDITURES (BILLION DOLLARS)			PER CAPITA INDEXES		
	TOTAL	FOOD AND TOBACCO	OTHER GOODS AND SERVICES	TOTAL CONSUMER EXPEN- DITURES	FOOD AND TOBACCO	OTHER GOODS AND SERVICES
1929	78.8	21.4	57.4	100	100	100
1930	70.8	19.5	51.3	93	93	91
1931	61.2	16.3	44.9	86	83	86
1932	49.2	12.7	36.5	76	72	78
1933	46.3	12.8	33.5	77	78	75
1934	51.9	15.6	36.3	80	90	78
1935	56.2	17.7	38.5	86	100	81
1936	62.5	20.0	42.5	93	110	87
1937	67.1	21.6	45.5	96	114	90
1938	64.5	20.7	43.8	94	111	88
1939	67.5	21.0	46.5	99	113	93
1940	72.1	22.6	49.5	103	119	97

Source: *Survey of Current Business*, "National Income Supplement," July, 1947, pp. 19, 41. In computing the final indexes, the consumer expenditure totals were first deflated by the Bureau of Labor Statistics cost of living index, which for this period is not considered biased one way or the other. The food figures were handled in the same way. The deflated expenditure series were then divided by the population index as in Table XIV.

These data on consumer expenditures are of added significance if we keep in mind that they include the spending not only of workers but of their employers and of all the higher and middle income groups. They measure the purchases of luxuries as well as daily necessities.

Over-all consumption of goods and services presents the same general picture of decline and stagnation that we saw in our earlier tables. It was not until the advent of war that real consumption on a per capita basis rose over the 1929 level. It is an ironic fact that the all-time peak in civilian consumption occurred in the desperate year 1941, when war production reduced unemployment sharply but rationing had not yet been introduced.

The table shows also that total consumption would have lagged even more were it not for the food component, which on a per capita basis had regained the 1929 level as early as 1935, and had risen about 20% by 1940. The indications are that this rise continued through the war years. It is the rise in food consumption that explains the relatively good showing made by non-durable manufactures in Table XIV.

Now what does this mean? The traditional belief is that food consumption is extremely stable in good times as well as bad; but our table indicates that with rising income food consumption had gained more rapidly than any other item in the consumer budget. This strongly suggests that per capita food consumption, *even in 1929*, was so close to minimum subsistence levels, that the greater part of any increase in income in subsequent years was spent on this necessity of life.

Consumption per person of goods and services other than foods did not regain the 1929 level in the 'thirties, and it is an open question whether for this sector the 1929 peak was exceeded even in the war years.*

The data in Table XV indicate also that the people of the United States did not enjoy during the long depression the benefits that should accrue to the people of the leading industrial nation of the world. From 1929 until the advent of World War II, they were able to buy less manufactured goods than before

* It is difficult to be very precise about civilian consumption in wartime because while actual expenditures reached the \$100 billion mark in 1944 most of the increase is regarded as due to price boosts, upgrading of inferior goods, black-market operations, etc. . . . The War Production Board has made the most conservative official estimates of consumer expenditures (in billions of dollars at 1939 prices) as follows:

1939	61.7	1942	67.2
1940	65.1	1943	66.6
1941	69.7	1944	68.3

Here we see that the peak in real consumption probably occurred in 1941. (See War Production Board, *American Industry in War and Transition, 1940-1950*, Part II, p. 27.)

and, after all, it is the abundance of these goods that should be the distinguishing mark of an industrialized economy.

At the beginning of this section we showed that the relative position of the worker declined both in the period 1919 to 1929, and in the war years 1939 to 1945. We have just shown that the standard of living of the entire nation declined absolutely during the period 1929 to 1940. The total figures for the entire economy indicate that on an absolute basis there was less commodity production during the years 1929 to 1940 than there was in the period before 1929.

On the basis of the 1929-1940 record there is ample justification for raising the question whether 1929 was a turning point in U.S. economic history. Can we not assume that the trend following that year is the real trend in American capitalism? Can we not say that the war years were but an interruption, that the declining trend is bound to assert itself again when the influences of the war and foreign "aid" and "defense" orders have been exhausted? We shall return to these questions in a later section.

FAMILY INCOMES AND BUDGETS

Our next concern is with the actual level of the American standard of living. Let us arrive at a measure of the actual standard of living enjoyed by the average family in the United States and compare it with the minimum requirements for decent living as established by a recognized authority. The Heller Committee for Research in Social Economics, University of California, has built up over the years a dependable reputation in its compilation of budgets for a wage-earner's family consisting of husband, wife, and two children. With these budgets, we compare the actual average income of a full-time employee in all industries in the United States, including farming and government, as reported by the U.S. Department of Com-

merce in its studies of national income. Here, as we have noted before, the comparisons are especially significant since the incomes of high-paid corporation officials are included with the incomes of workers in the annual average figures.

The Heller budget for the family of a wage earner living in the San Francisco area is given below:

Table XVI. Budget for Family of Wage Earner, 1947

<i>Total Budget</i>	\$3,894.44
Taxes	342.00
Food	1,289.85
Clothing	399.07
Housing—rent, including water	444.00
House operation	120.28
Furnishings	129.00
Miscellaneous (automobile upkeep, medical care, life insurance premiums, recreation, tobacco, dues, church, charity, etc.)	1,170.24

Source: *Budget for the Family of a Wage Earner*, Heller Committee for Research in Social Economics, University of California, Berkeley, Cal., 1947, pp. 69-70.

In Table XVII we compare the actual average income per full-time employee as computed by the Department of Commerce with the Heller budgets for each year, 1929 through 1947.

The table shows at a glance how far average income in each year fell below the Heller budget for "standard health, decency, and moral well-being." In the prosperity year 1929, average income in all industries was only 59% of the Heller budget figure for that year. Now look at 1937, the first "boom" year after 1929 and the last peacetime peak. The percentage is down to 57%. From peak to peak the gap between actual income and the minimum budget thus grew wider.

The war years brought actual income per worker closer to the Heller budget standard. We know of course that hours of work were longer, that the effort required of the workers was

intensified. At the same time the budgets themselves were held down partly because goods were not available, and partly in the attempt to scale down purchases when everything was required for war. In 1944, when income came closest to the budget the Heller standard itself was actually lower than for 1943 because the Heller Committee was trying to keep consumer expenditures down during a crucial war year. It is generally known,

Table XVII. Average Employees Income Compared with Family Budget, 1929-1947

	AVERAGE ANNUAL INCOME OF EMPLOYEES IN ALL INDUSTRIES	HELLER BUDGET	AVERAGE INCOME AS PER CENT OF HELLER BUDGET
1929	\$1,421	\$2,409	59
1930	1,380	2,246	61
1931	1,292	2,033	64
1932	1,136	1,855	61
1933	1,064	1,929	55
1934	1,109	1,960	57
1935	1,153	1,966	59
1936	1,199	2,028	59
1937	1,270	2,219	57
1938	1,238	2,177*	57
1939	1,269	2,199	58
1940	1,306	2,198	59
1941	1,450	2,225	65
1942	1,719	2,603	66
1943	1,966	2,991	66
1944	2,121	2,964	72
1945	2,204	3,075	72
1946	2,365	3,576	66
1947	2,595	3,894	67

Source: Heller Committee reports and U.S. Department of Commerce, *Survey of Current Business*, July, 1947, *National Income Supplement*, and July, 1948.

* This figure supplied on the basis of the movement in the BLS consumer price index; Heller budget was not computed for 1938.

however, that instead of declining, the cost of living actually rose, so that the close approach during 1944 is due not so much to the rise in average income as it is to the reduction in the budget. If we made the budget move in accordance with the War Production Board index of consumer prices* the percentage would be only 68 for 1944.

The 1946 and 1947 figures for average income in all industries indicate that the gap between actual average income and the standard set by the Heller budget widened in the first postwar years.

Table XVII shows that the average income per worker in the United States falls far below accepted minimum standards of family health and decency. But from this measure we cannot tell how much the averages are distorted, first in an upward direction by the large incomes going to the small fraction of employees at the top of the salary scale, and, second, in a downward direction because of the inclusion of single workers without dependents. The next step is to ascertain how many families in our country are living below the Heller Committee budget level.

Table XVIII (p. 94) is based on the figures for family income as compiled by various government agencies (and one private research organization) for several different periods. These studies gave the number of family units in each income group. Thus we can show what percentage of all families were below the Heller wage-earner's budget standard in these years.

On the basis of this comparison, we must amend Franklin D. Roosevelt's statement about "one-third of a nation ill-housed, ill-clad, ill-nourished" to read at least "two-thirds of a nation." The Roosevelt statement was made in 1937. We do not have any study for that year; we have, however, figures for 1935-36 which show that about 80% of all American families received in those years incomes below the Heller budget level.

* See Table X.

Table XVIII. Families Below Heller Budget Level

YEAR	AGENCY CONDUCTING STUDY	HELLER BUDGET	PERCENTAGE OF FAMILIES SHOWN BY STUDY TO BE BELOW HELLER BUDGET
1929	Brookings Institution	\$2,409.00	71.2 (under \$2,500)
1935-36	National Resources Planning Board	1,997.56	79.1 (under 2,000)
1941	Bureau of Labor Statistics	2,226.00	66.0 (under 2,250)
1941	Office of Price Administration	2,226.00	68.3 (under 2,250)
1942	Bureau of Labor Statistics	2,604.00	68.1 (under 2,600)
1942	Office of Price Administration	2,604.00	63.5 (under 2,600)
1945	Bureau of Agricultural Economics	3,076.00	70.0 (under 3,000)
1947	Bureau of Agricultural Economics	3,894.00	68.0 (under 4,000)

This table provides an excellent measure of the degree to which actual income falls below the potentiality and promise of the "American way of life." We must conclude that the American standard of living is in actual fact very low; the deep gulf between the ideal minimum and the true state of affairs underlines the Marxist concept of wages as mere subsistence.*

MASS UNEMPLOYMENT

In our survey of living standards, we must not forget the problem of unemployment.

There is no way to demonstrate statistically the impact of mass unemployment upon the American standard of living. Not only the extent of poverty, but the growing psychological drain

* Other facts on the health and working and living conditions of workers in this country, especially before World War II, are given in Jürgen Kuczynski's valuable study, *The United States of America, 1789 to the Present Day*, Volume II in his series called "A Short History of Labor Conditions Under Industrial Capitalism" (Frederick Muller, London, 1943).

of insecurity and despair, defy measurement. It is sufficient here to record the acknowledged fact that fear of unemployment is now indelibly scored upon the consciousness of the average American.

Unemployment has always been a feature of American economic development; it has always been the most painful aspect of every crisis and depression. But after 1929, unemployment for the first time reached chronic, mass proportions. It has been estimated that for the decade 1919-1928, on the average, 15% of the industrial labor force was unemployed; but for the following decade, 1929-1938, this was more than doubled to an average of 35%.*

There are no official estimates and in fact, even under the New Deal, the government hesitated to make an accurate count of the unemployed. Recent estimates compiled by the U.S. Railroad Retirement Board indicate that unemployment rose from 2.9 million in 1929 to 13.9 million in 1933. Even in 1939, a "good" year, there were 10.4 million unemployed.

There is reason to believe that the figure for 1933 is greatly understated. It was estimated at the time in labor circles that the number of unemployed in 1933 reached the staggering total of 16,000,000 to 17,000,000. (See our series of *Labor Fact Books*, especially No. 3, page 48.) But even the conservative figure is sufficiently large to underline the catastrophic extent of unemployment during the prewar decade.

In assessing the unemployment figures we must note that the relatively prosperous year 1937 made no appreciable reduction in the mass of unemployed (8.6 million, according to official estimates). We have previously noted that production in 1937 was approximately at the level of 1929, but still in 1937 nearly one out of every five members of the labor force was unemployed. The slide in 1938 brought unemployment back to the greater

* Spurgeon Bell, *Productivity, Wages and National Income*, Brookings Institution, Washington, D.C. 1940, p. 24.

number characteristic of the worst post-1929 years. It is anybody's guess how many would have been unemployed had the 1937-38 depression run its full course uninterrupted by the preparations for World War II.

As long as the threat of disastrous unemployment hangs over the American people the prospects for a "high standard of living" will be anything but bright. No matter what luxuries the favored few may enjoy, if unemployment continues to create fear and insecurity in the minds even of employed workers, the promise of a high "American standard of living" will not be fulfilled.

HOUSING NEEDS AND CONDITIONS

Housing is another important element in the standard of living. Right now, in the years immediately following World War II, we are suffering from the most acute housing shortage in the history of the country. But inadequate housing is an old story. Slums have always been a blot on the urban scene and on the countryside as well.

Housing shortages create moral and social problems, but here we must discuss their economic significance. Since less than half of American families own their own homes, it is clear that landlords represent a huge property interest. Strengthened in their monopoly position by an extreme shortage of living space, they are able to command a growing share of the people's income. Here is a mass of surplus and necessary value that flows to a section of the capitalist class. Excessive rents as well as crowded, inadequate homes serve to reduce the relative position of the workers and the living standards of the people in general in a way that defies accurate measurement.

The record of private enterprise in the field of residential construction is worse than in any other field of the national

economy. Private investment in new residential construction slumped after 1929 and never recovered, falling to a negligible volume in 1933; the 1940 level was one-third below 1929. Furthermore 1925, not 1929, was the peak in housing construction; in that year, 937,000 housing units were built, as against only 509,000 in 1929, a drop of 46%. That gives some idea of the long duration of the crisis in home construction. Here is a sector of the economy where private enterprise seems unable to meet even the minimum requirements of the situation.

Had it not been for some publicly financed housing during the New Deal era, the present shortage would have been even more tragic. But now it is estimated that before the housing shortage could be alleviated more houses would have to be built each year in the next ten years than were built in the record year 1925. But a study of private capital's record does not create confidence that it will meet the required pace of building.

It is to be assumed that excessive rents and unpleasant, to put it mildly, living quarters will go on for some time exacting more and more tribute from the share of national income going to labor and low-income consumers, while the share going to capital is by the same token proportionately expanded.

RELATIVE POSITION OF WORKERS, 1899-1946

On the basis of the facts and figures given in the preceding sections we can approach some understanding of the American standard of living and where it fits in with the general picture of American capitalism. We have seen that by a generally accepted yardstick, the Heller budget, the standard of living in our country is below the minimum level required for health and decency. We have seen that through the decade of the 'thirties, things were getting worse for everyone, while for specific boom periods during which living standards improved, the worker's relative share in the national product declined.

Table XIX. Relative Position of Employed Worker in Manufacturing, 1899-1946

	1	2	3	4	5	6	7	8
	OUTPUT OF MANUFACTURES	FULL-TIME EMPLOYEES	OUTPUT PER EMPLOYEE 1 ÷ 2	WAGES AND SALARIES	AVERAGE ANNUAL EARNINGS 4 ÷ 2	PRICE INDEX	AVERAGE REAL ANNUAL EARNINGS 5 ÷ 6	RELATIVE POSITION OF WORKER 7 ÷ 3
1899	100	100	100	100	100	100	100	100
1904	124	115	108	129	112	114	98	91
1909	158	139	114	169	122	129	94	82
1914	186	147	127	200	136	136	100	79
1919	222	191	116	518	271	235	115	99
1921	194	147	132	402	273	241	113	86
1923	280	196	151	547	294	230	128	85
1925	298	178	167	538	302	237	127	76
1927	317	178	178	545	306	234	131	74
1929	364	190	192	587	309	232	133	69
1931	262	140	187	361	258	205	126	67
1933	228	131	174	266	203	175	116	67
1935	301	163	185	394	242	185	130	70
1937	376	194	194	545	281	194	145	75
1939	373	187	199	490	262	188	139	70
1940	434	204	211	564	275	190	144	69
1941	576	247	233	784	307	201	157	67
1942	726	286	253	1,112	388	229	168	66
1943	886	327	269	1,475	451	258	175	65
1944	864	320	269	1,548	482	271	178	66
1945	694	282	246	1,377	488	276	173	70
1946	582	271	215	1,313	484	301	161	75

Sources: Cols. 1, 2, 3, 4, for the 1899-1939 period are based on *Census of Manufactures* series as reported in the 1942 *Statistical Abstract*, pp. 886, 887. Col. 6 for 1899-1909 is based on the BLS wholesale price index spliced to the BLS cost of living index for 1909. The 1899-1939 indexes are extended by means of Table X.

In Table XIX we give a record of the manufacturing worker's relative position over the sweep of years from 1899 to 1946.

We see that there has been a long-term decline in the employed worker's relative position for the entire period. Real wages increased from 100 in 1899 to 161 in 1946; but output per worker increased from 100 in 1899 to 215 in 1946, with the result that the share of the worker in his own output declined by 25%. The worker produces more and more, but he gets relatively less for his work. One limitation of this analysis is the fact that it deals with those workers fortunate enough to be employed. If the real wages of employed workers are spread over the entire manufacturing labor force, including the unemployed, their relative position would be much lower during the 'thirties. Inadequate data on factory unemployment make this calculation difficult.

TREND OF CAPITAL INVESTMENT

An apologist for the "free enterprise" system, confronted with this long-term decline in the worker's relative position, might come up with the following "explanation." Workers will get back smaller shares of their product, he might say, in an economy where larger and larger shares of the national product are invested in the means of production. According to this theory, the capitalist accepts his increasingly larger share of output, but then applies this to further investment, thus laying the basis for future increases in productivity.

This is a neat theory, and may apply in the early stages of capitalist development when capital formation or investment increases most rapidly. However, it does not jibe with the economic facts for the period under consideration. For these years, according to the best available data, a *smaller* and *smaller* share of total product went to capital formation.

Table XX. Percent of National Income Devoted to Net Capital Formation (Decade averages, current prices)

	FLOW OF GOODS TO CONSUMERS	NET CAPITAL FORMATION
1869-1878	87.9	12.1
1879-1888	86.8	13.2
1889-1898	85.9	14.1
1899-1908	87.4	12.6
1909-1918	87.5	12.5
1919-1928	89.1	10.9
1929-1938	98.0	2.0

Source: Simon Kuznets, *National Income, A Summary of Findings*, National Bureau of Economic Research, 1946. p. 53.

This table tells us that capital investment gained relatively at the expense of consumer goods only in the period before 1899. Thereafter, its relative importance declined steadily, especially after 1929. Thus we see that the capitalist can no longer justify his increasing share of total product on the grounds that he is investing it in capital. He gets more and more, but less and less of what he gets is converted into the basic means of production. This should come as no surprise, for we have already noted in Table VIII the significance of the falling off of capital investment in American manufacturing.

Two aspects of the fundamental process of capitalist development should be emphasized here. Increased investment in machinery and equipment makes for ever greater productivity, but does not improve the worker's lot; rather it reduces the value of his labor power, intensifies his exploitation, and returns to him a smaller share of his output in wages. It has already been made clear that wages tend to approximate subsistence levels.

We could call Table XIX a measure of the exploitation of the employed worker in manufacturing and at the same time a measure of his relative impoverishment. In this index of the relative position of the employed worker we have an indication of the contrast between the expanding forces of production

and the relatively contracting power of consumption. This is a basic characteristic of capitalism flowing from its fundamental contradiction.

The great crisis of the 'thirties was the most striking illustration of the staggering disproportion between America's capacity to produce and the people's capacity to consume. The long-term process that put relatively less of his own output at the disposal of the worker ended up in total industrial collapse, sliding into a period of stagnation until the outbreak of World War II. In this period relative impoverishment clearly gave way to an absolute decline in living standards.

But it is difficult to make adequate statistical comparisons of living standards over a very long span of years. Intangible factors, not susceptible to measurement, become increasingly important. The increasing incidence of mental illness, psychosomatic disturbances, aggravated by intensified speed-up, superimposed on the shattering effects of bigger and ghastlier world wars, the physical and moral breakdowns attending mass unemployment—all these factors one could cite as evidence that in the long run the living conditions of workers have deteriorated absolutely as well as relatively.

CHAPTER VII

Business and Government Spending

In the foregoing pages we have shown by the use of the available statistics that American capitalism is by no means immune from the basic contradictions of capitalism that Karl Marx discovered and analyzed.

Marx described the last cause of all real crises in the following terms: "The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces as if only the absolute power of consumption of the entire society would be their limit."*

Our data have shown that this fundamental process of capitalism is by no means absent from the American scene. Consider the unlimited capacity to produce developed during the war, when the market was not a problem. Then compare the average annual real income of our people. It is so far below minimum standards of health and decency that not less than two-thirds of the American people must live at sub-standard levels. And these depressed two-thirds of our people are the living proof that American capitalism in its development conforms to the general laws creating "poverty and restricted consumption of the masses" along with vastly expanded productive forces.

Under the conditions of capitalism the American people do

* *Capital*, Vol. III, p. 568.

not share in the enormous output potential of our industrial establishment. Rich America, like any other capitalist country, has not provided a fair and equitable distribution of its huge national income.

All the processes of capitalism intensify the basic contradictions between expanding production and restricted consumption. As a matter of fact, in the expansion of production itself lie the contradictory forces that restrict consuming power. Recall our demonstration of the change in organic composition of capital, which expands the productive forces but at the same time reduces the share of total capital going to wages. We have shown that there is a long-term tendency for the productivity of the worker to rise, but at the same time there is also a long-term tendency for the worker's share in his own output to fall.

HOW LIBERAL ECONOMISTS SEE THE PROBLEM

When the crash of 1929 struck America with cyclonic fury and brought in its train the long depression, the major contradiction of capitalism forced itself upon the consciousness of even the most unwilling academic economists. Today, though they may not admit it, most professional economists sense what Marx discerned a century ago—the ever-widening gap between an expanded industrial productive capacity and the limited purchasing power of an exploited working class.

It is a striking commentary upon our economic system that our growing ability to produce more and more goods with less and less labor constitutes cause for alarm. In a rational society rising productivity would naturally be regarded as a guarantee of a better life, with an abundance of things for all and ample leisure to enjoy them. It is a grim fact, however, that under capitalism rising productivity is associated not with plenty, but with "overpopulation" and "overproduction," which forebode unemployment, idle factories, hunger, and depression.

During the Roosevelt era, when the government attempted to wrestle with these problems, there developed a new brand of liberal approach to capitalism's basic contradiction. The New Deal economists, more or less inspired by the late John Maynard Keynes, eminent British economist, tend to reason backwards, something like this:

Our economic ailments flow mainly from unemployment. If we are to have full employment, we must have a certain level of economic activity as defined by the national income. Therefore the federal government should make such a national income level an explicit national goal, to be guaranteed by whatever governmental policy may be necessary.

Let us examine this argument, which was the underlying philosophy of the original Full Employment Act, before it was emasculated by the 79th Congress.

CAPITALISM AND FULL EMPLOYMENT

Near the end of World War II, liberal economists developed many studies of the "economics of full employment," which wound up with more or less similar conclusions.* It is instructive to examine this analysis of the postwar economy, as it was developed *before* the war's end, and then compare it with the actual economic record of the postwar period.

"Full employment" in a typical postwar year was defined as that level of employment calculated to produce a gross national product (the sum of national income, business savings and tax payments) of about \$200 billion (in 1944 dollars). A labor force of 60 million would be required, including 1.5 million unem-

* A typical example is J. L. Mosak's "Forecasting Postwar Demand," in *Economic Reconstruction*, edited by S. E. Harris (McGraw-Hill, 1945). Similar studies had been made by S. M. Livingston, E. Hagen, and N. Kirkpatrick; H. C. Sonne and G. Colm. Summaries of such plans have appeared in *National Budgets for Full Employment* (National Planning Association).

ployed (assumed to be in the process of changing jobs) and possibly about 2.5 million in the armed forces.

The big question in this type of analysis was consuming power. Would we be able to spend \$200 billion in order to buy the \$200 billion worth of goods and services necessary to assure full employment and full production?

In order to answer this question, the New Deal economist divided the economy into three groups: (1) individual consumers, (2) business organizations, and (3) government. All these groups taken together account for total spending.

Estimates were then made as to how much of the burden of "spending" each group should shoulder, in order to hit the \$200 billion target.

Since consumer spending was taken to depend on the given level of income, the expenditures of government and business were regarded as the strategic factors. Thus, assuming the tax structure of 1944, and considering past experience, the liberal economists did not foresee that consumers could be expected to spend more than about \$120 to \$125 billion. This left a balance of \$75 billion to be spent by business and government.

HOW MUCH CAN BUSINESS SPEND?

How much could business be expected to spend? It was at this point that the economists ran smack into the contradiction of overabundant industrial capacity. Estimates of future levels of business investment based on past performance "and on the quantity and quality of our present plant and equipment" led

* In dealing with this category of national expenditure we are not concerned with what business lays out in the production of goods for current consumption. That is covered in the figure for consumer spending. We are talking about business investment in "producers' goods," that is, factories, machinery, and equipment for production. In the language of professional economists, this kind of business spending comes under the heading of "private gross capital formation," or, as the latest tabulations of the Department of Commerce call it, "gross private domestic investment."

to "rather pessimistic conclusions," one liberal economist was constrained to admit. "In the absence of any revolutionary inventions which might render our present plant and equipment obsolete, and in the absence of a large export program, it is difficult to see how private capital formation can average in excess of \$20 billion per annum."* (All figures used in this chapter are in terms of 1944 prices.)

This dim view of future business spending was based on the fact that before the war business investment was on the decline, and, indeed, the mass of idle capital vainly seeking profitable opportunities in the late thirties was the cause for much head-shaking among professional economists. It is well to remember also that business spending had never before been able to approach \$20 billion per annum.†

Again the problem of future investment was at the war's end (and still is) complicated by the enormous wartime expansion of our industrial capacity. Thus from 1940 to 1944 over \$25 billion was spent, mainly by the government, in the construction of new plants and the extension and re-equipment of old ones.

Some of these new plants were regarded as strictly war babies, with no peacetime utility, but many of them were sold to private companies at ridiculously low prices. A good example was the sale to the U.S. Steel Corp. of the government-built \$200 million steel plant at Geneva, Utah, for \$47.5 million.

Summarizing these forecasts and taking the most optimistic view of the possibilities we would have about \$150 billion annual expenditure by individual consumers and by business. Thus the liberal economists found that the spendings of private consumers and business would leave a large gap. They were thus led to

* J. L. Mosak, *op. cit.*, p. 89.

† See, for example, Simon Kuznets, *National Product Since 1869*, New York 1946, p. 115; gross capital formation averaged per year by decades: 1919-28, \$15.8 billion; 1929-38, \$10.7 billion. And on p. 118, net capital formation, averaged per year by decades: 1919-28, \$7.0 billion; 1929-38, \$1.0 billion. (All figures in 1929 prices.)

fall back on the government to make up the \$50 billion difference and bring the total national expenditure to the target figure of \$200 billion per annum.

BUT WILL IT WORK?

We have presented the typical liberal economist's approach to the problems of postwar American capitalism. Before we test the validity of this analysis in the light of our postwar experience, let us first go back to some of the elementary considerations raised by our own analysis of the workings of American capitalism.

It is understood, of course, that, while we have been talking about a single postwar year by way of illustration, the problem of full production and full employment is always with us year in and year out. It is essentially the old problem posed by the fundamental contradictions of capitalism. If it could be solved for a single year in the manner suggested by the liberal economists then it could be solved for every year.

Let us note first that the crucial role in the liberal economists' scheme is assigned to the government. Government spending, as noted above, is supposed to take up the slack between the expenditure of individuals and of business and the target figure of \$200 billion. But is the government a separate, impartial agency, existing above and apart from the fundamental economic process, *i.e.*, the struggle between labor and capital for division of the national product, or wages versus surplus value? All our experience tells us that the answer is no. At best, labor can exert an influence in proportion to its degree of organization, but essentially the government operates to protect the "institution of private property" and is mobilized to take the part of capital against labor.

The slogan of the capitalists is, in effect, "down with wages and up with surplus value." Using this simple standard as a

guide to class behavior, let us examine the implications of the liberal economist's advice to capitalists.

First, we run right into the fact that the very idea of full employment is highly distasteful to capitalists. A careful reading of *New York Times* editorials on this subject is enough to prove this point. There can be little doubt that a labor reserve in the form of a large number of hungry unemployed is the ideal automatic mechanism to keep the wage level low and increase the rate of surplus value.

The idea of full employment, however, carries with it great hope and promise for the majority of Americans, who saw the miracles of production brought about by the full employment of wartime. And they would welcome some means of assuring it for peacetime.

This means large-scale government spending; and there is certainly a great need for huge sums to be spent on housing, health, education, and public works. Some \$50 billion, spent annually by the federal government on such socially desirable services, could mean a tremendous change in our economy.

During the war the federal government did not spend more than \$5 or \$6 billion a year on non-war goods and services, with state and local governments adding another \$7 or \$8 billion. Expenditures for war, on the other hand, reached an all-time high of \$90 billion in 1944. If the government were to embark on a peacetime spending program on anything like the scale set by war expenditures (and it must, to secure full employment according to the liberal economist's analysis) then the expansion of social services would not be enough; other methods of using public funds in the public interest would have to be found, such as, perhaps, the use of subsidies to bring to the mass of the consumers, goods which they could otherwise never hope to afford. And many projects, such as TVA, that might compete directly with private capitalist enterprise would naturally come up for consideration.

Now in order to finance such a program, the government would have to tax the rich, for to tax the poor would make the plan self-defeating. In explaining why taxes would have to fall on capital accumulation rather than on consumption, one *New Dealer* has stated:

"Government spending contributes to the flow of purchasing power and thus to the maintenance of production and employment, only if the money comes from people (or institutions) which would not have spent it themselves. Spending money raised by a sales tax is of no use since the consumers would have spent the money themselves if they had not had to pay the tax. The same is true, generally speaking, of excise, customs, payroll, and processing taxes."*

WHY CAPITALISTS OPPOSE GOVERNMENT SPENDING

It should now be clear why capitalists are so furiously opposed to such proposals. For if carried through to their logical conclusion they involve at least a limited redistribution of the national income. Let us assume that the wildest dreams of the liberal economist were realized and that government spending were used to raise living standards, then the upward trend in the rate of exploitation, which we have seen to be a basic feature of capitalism, will have to be halted.

The huge federal expenditures contemplated could not fail to have a profound effect upon the structure of American capitalism. Fifty billion dollars spent annually in the interests of the people would have a revolutionary impact upon the division of the national product. It would mean nothing less than that the long-term trend in the rate of surplus value would be reversed.

The adoption of a thoroughgoing liberal economic program, reversing the long climb of the rate of exploitation, is not im-

* Alan Sweezy, "Government Contribution," *Economic Reconstruction*, p. 410.

possible, but it cannot in the nature of things be accomplished without incurring powerful opposition from the capitalist class, in spite of all the economic demonstrations that such a program is in the national interest.

Liberal economists have attempted to answer the protests of the National Association of Manufacturers and other conservatives that such a huge peacetime spending program would bankrupt the nation. They point to the obvious fact that a nation's finances are in the best condition when its national income is high. They illustrate by showing that in the depression years, 1930-1936, we lost more than \$200 billion because of the decline in national income. It would, therefore, have been advisable for the government to have spent any sum short of this figure to maintain the nation's income at the 1929 level.

Considerations of the national interest, however, fall on deaf ears, when the N.A.M. and the capitalists generally are urged to lower their percentage share of the national product even though this might assure them larger amounts of surplus value in the future. This was clearly illustrated by two major postwar issues—the struggle to maintain an adequate real wage for American workers, and the struggle to keep some semblance of price control to prevent the cost of living from skyrocketing. The same may be said of the rich man's tax relief laws and the union-smashing Taft-Hartley Act pushed through Congress by the coalition of Republicans and Democrats.

The essential fallacy in the argument of the liberal economist centers about the role he assigns to government. He sees the government as an agency that can "step in," "prime the pump," "take up the slack," "fill the gap." All these are euphemisms for the government's doing things that "free enterprise" presumably will not do. But neither will the government do them, if it remains the servant of "free enterprise."

But, in spite of our criticism, and while the liberal economist may be naive in his concept of the function of government, he

does perform one extremely useful service. He reveals the economy as being in a perpetual state of imbalance. While he may not see the fundamental cause of this imbalance, he is far ahead of the conservative economist who continues to maintain that there is nothing wrong at all.

CHAPTER VIII

A Postwar View of American Capitalism

A brief review of our postwar "prosperity" gives us some insight into the tacit assumptions of the liberal economist. Here we have clear evidence that the government does *not* serve as an "impartial" regulator.

Consider first the basis of the great American "boom" that followed the war's end. The imbalance in the national economy discerned by the liberal economists appeared to be offset by an economic entity that was called "pent-up demand." The huge backlog of demand built up during the war was seen as an economic savior, offering the promise of long-sustained postwar prosperity.

This concept of "pent-up demand" suggests that somehow the United States had been favored with a war that conferred a two-fold prosperity. First, the war brought "good times" in the years 1940-1945. (How strange this must sound to a European!) In those years the war also deprived us of enough goods to assure a continued prosperity for as long a time as it would take to re-produce these lost goods.

But even the existence of a huge backlog of unsatisfied consumer demand would require a high level of purchasing power to make the demand "effective." This purchasing power of consumers, however, was the first postwar casualty. From the wartime peak in 1944 to the end of 1947 the wage and salary component of national income declined from 66.5% to 62.6%. At the

same time prices soared to the point where the real income of workers had fallen about 20% below the wartime peak. Unit volume of sales declined both in 1946 and 1947.

Though consumer purchasing power faltered, the postwar business "boom" continued. A succession of "temporary props," to use the phrase made popular by the President's Council of Economic Advisers, made their brief bow on the economic stage.

First to fill the breach was inventory accumulation. The process of "filling the pipelines" of distribution, itself a necessary feature of the satisfaction of "pent-up demand," reached a \$5 billion peak in 1946, only to evaporate in the following year.*

At this point, the great postwar export wave took up the burden of sustaining the "boom." From a negligible factor in prewar times, net foreign investment (measured mainly by the excess of exports over imports) reached an annual peak rate of nearly \$9 billion in 1947.

But the export boom reflected the abnormal trade relationships growing out of World War II and the lagging postwar revival of production in Britain and Western Europe. It thus represented "pent-up demand" on an international scale, and was therefore a relatively transient factor, even though sustained temporarily by the Marshall Plan.

We now come to the last but most important "prop"—government spending. In the eyes of the liberal economist, as indicated above, this is a permanent necessity. And this is true because the other props are admittedly temporary.

Even though American capitalism enjoyed a number of unique postwar advantages, even though postwar "prosperity" continued

* Inventories represent goods temporarily withheld from their ultimate consumers. They may normally be expected to reach a level consonant with the prevailing level of industrial production. It is only when there are significant changes in the level or in the character of industrial production that we may anticipate marked expansion or contraction of inventories. But when inventories accumulate at a rapid rate, that means *per se* that they will not be allowed to accumulate for a very long period.

for several years because of the unanticipated degree of destructiveness achieved by World War II, it soon became clear that the crucial prop was this government spending.

In 1948 the government's share of all expenditures by consumers, business and government, rose to about one fifth. But note that the expenditures of consumers and business are backed up by real goods and services. This can also be true of government spending, but only in so far as it takes the form of public works and the social services along the lines advocated by the liberal economists. To the extent that government spending does not result in the creation of real social values, it represents a drain on the economy.

With the virtual abandonment of the New Deal tradition, the character of government spending became less and less socially useful. But these expenditures have had an even more sinister aspect which became apparent when the Marshall Plan began to unfold.

Under this scheme, first presented to the public as a disinterested relief measure, large credits were granted by the United States to reactionary foreign governments and monopolist corporations for expenditure in the United States.

These billions, aside from the power politics involved, constituted an indirect subsidy to American big business. It was an attempt to maintain the economic paradox whereby U. S. business was to go on exporting much greater quantities of goods than it imported.

The next step was to push government spending into higher gear in the form of increased expenditures for armaments and war preparations here and abroad. These expenditures are, of course, described as necessary for "national defense." But they have a very special significance.

In the current stage of the general crisis of the American economy, in the shadow of a developing cyclical crisis, government spending is regarded by the monopolists as necessary to keep

the system going. But there is only one form of government spending today which is palatable to big business. And that is spending for war preparations. Indeed, along with the acceptance by big business of this kind of government spending, many former liberal economists have cynically advanced a new brand of Keynesism in which the Marshall Plan and "defense" expenditures are extolled as devices to stave off depression.

But no amount of economic rationalizing can conceal the true purpose of the drive for a complete war economy in the United States. And that purpose is world domination by American monopoly capital. Thus, an increasing proportion of our national product is withdrawn from social usefulness as the tribute we pay for retaining the "free enterprise" system. We can expect this tribute to continue rising in the future as the pressure for remobilization increases.

Our analysis of the basic contradictions of American capitalism indicates that government expenditures, whether of the liberal or reactionary variant of Keynesian theory, cannot solve our economic contradictions. Indeed, the very resort to vast government expenditures underlines the fact that capitalism in this country, in the throes of the general crisis of capitalism, is headed for a crisis of overproduction. This crisis of overproduction, latent throughout the fitful postwar prosperity, threatens to erupt into another gigantic depression.

Actually, of course, neither a war economy nor a war itself can eliminate depressions under capitalism. A war economy is not a planned economy in its basic social aspects. It is not an economy of plenty for the masses of the people. Instead, it sharply reduces the purchasing power of the people while providing more armaments and excess profits for the corporations. By devouring the substance of the nation, a war economy intensifies the economic contradictions that lead to further crises.

APPENDIX

DISTINCTION BETWEEN PRODUCTIVE AND NON-PRODUCTIVE WORKERS

The following is a translation from the German of several sections dealing with productive and non-productive labor from Karl Marx's Theories of Surplus Value. Originally planned as a volume to follow the three volumes of Capital, the material left by Marx in unedited and unfinished manuscripts and notes was later prepared for publication by Karl Kautsky and issued under the title Theorien über den Mehrwert. The quotations are from Book I, 1923 edition.

Appendix II is a relevant quotation from Vol. II of Capital on the function of the merchant.

A scientific edition of the Theories of Surplus Value is being prepared by the Marx-Engels-Lenin Institute in connection with its issuance of the complete works of Marx and Engels.

I.

Productive labor, in the sense of capitalist production, is the wage labor which, in exchange for the variable part of capital, not only reproduces this part of the capital (or the value of its own labor power) but, beyond this, produces surplus value for the capitalist. Only through it is a commodity or money transformed into capital, produced as capital. Only that wage labor is productive which produces capital. . . . (p. 253.)

To produce commodities labor must be useful labor, must produce a use value, *i.e.*, realize itself in a use value. And only labor which is realized in commodities, in use values, is therefore the labor with

which capital is exchanged. This is a self-evident presupposition. But it is not this concrete character of labor, its use value as such—that, e.g. it is the labor of a smith, a shoemaker, a spinner, a weaver, etc., which constitutes its specific use value for capital and stamps it as productive labor in the system of capitalist production. What constitutes labor's specific use value for capital is not its specific useful character nor the particular useful qualities of the product in which it is realized. But it is its character as the element which creates surplus value; that it is abstract labor and that it represents not some definite quantity of this abstract labor but a larger quantity of labor than is contained in its price, that is to say, in the value of the labor power.

The capitalist production process is therefore not merely the production of commodities. It is a process which absorbs unpaid labor and which transforms the means of production into means for the absorption of unpaid labor.

From this it follows that the definition of productive labor has absolutely nothing to do with the definite content of the labor, its specific utility or the particular use value in which it is embodied.

The same kind of labor can be productive or unproductive.

Milton, for example, who wrote *Paradise Lost*, was a non-productive worker. But the writer who supplies shop work to a publisher is a productive worker. Milton produced *Paradise Lost* for the same reason that a silkworm produces silk. It was an activity of his nature. And he later sold the product for 5 pounds sterling. But the Leipzig scribbler who under the direction of his publisher manufactures books (let us say manuals of political economy) is a productive worker, because his production is from the beginning subjected to capital and is carried on only for increasing its value. . . . (pp. 415-16.)

Here there are various questions to examine. Whether I purchase a pair of pants, or buy cloth and bring into my house a journeyman tailor whom I pay for his service (that is, for his labor as a tailor) to transform this cloth into pants, is all the same to me so far as the pants are concerned. If I buy the pants from the capitalist tailor (merchant tailor) [English in original] . . . I do this because the other way is more expensive and the pants cost less labor and are therefore cheaper if the capitalist tailor produces them than if I have them

made in the other way. But in either case I convert the money, with which I buy the pants, not into capital but into pants. And in either case, so far as I am concerned, I use the money as a simple means of payment, which means transforming it into this definite use value. Here the money does not serve as capital, although in one case it is exchanged for a commodity, in the other it buys labor itself as a commodity. It functions only as money and, more definitely, as means of circulation. On the other hand the journeyman tailor (who works in my house) is not a productive worker, although his labor provides for me a product, the pants, and for him the price of his labor, the money.

It is possible that the quantity of labor supplied by the journeyman is greater than that contained in the price which he receives from me. And this is indeed probable since the price of his labor is determined by the price received by productive tailors. But this is all the same to me. I do not care whether he works eight hours or ten hours once the price has been fixed. What does interest me is the *use value*, the pants, and whether I buy them in the one way or the other I am concerned to pay as little as possible for them, the same sum, the normal price that is, in either case. This is an expenditure for my own consumption, not an increase but a decrease of my money. It is in no sense a means of enrichment any more than is any other way of spending for my personal consumption. . . . (p. 417.)

What is then the essence of this exchange? In what does it differ from the exchange of money for productive labor? In the first place, in that money is spent as money, as an independent form of exchange value which is to be converted into a use value, into means of subsistence, objects of individual consumption. The money does not become capital, but on the contrary it loses its existence as an exchange value in order to be consumed, used up, as a use value. The labor, on the other hand, interests me only as a use value, a service transforming cloth into pants, a service rendered to me by its definite useful character.

Conversely, the service which the same journeyman tailor, tied up with a capitalist tailor, renders to this capitalist, consists not at all in transforming the cloth into pants but in the fact that the necessary labor time realized in the pants is equal to, say twelve hours, and the wage which the worker receives is equal to six hours. So the service

which he performs consists in providing six hours of work for which he is not paid. The fact that this occurs in the guise of making a pair of pants simply hides the actual relationship. As soon as possible the capitalist tailor therefore seeks to change the pants again into money, that is to say, into a form in which the specific character of the tailor's labor has completely vanished, and the service rendered can be so stated that instead of six hours of labor time, expressed in a given sum of money, we have twelve hours expressed in a sum twice the size. I buy the labor of the journeyman tailor, because this labor serves to meet my need for clothing, that is, to satisfy one of my needs. The capitalist tailor buys it as a means of making two dollars out of one. I buy it because it produces a definite use value, renders a definite service. He buys it because it provides more exchange value than it costs; as a mere means of exchanging less labor for more labor.

When money is exchanged directly for labor without the latter producing capital and thereby becoming productive labor, the labor is bought as a *service*. This term, *service*, is in fact nothing but an expression for the particular use value provided by the labor, just as by any other commodity; but it is also a specific expression for the particular use value of labor which renders services not as things but as activity; and in this this sense it does not differ from a machine, a watch for example. . . . (pp. 418-19.)

It follows that it is not the simple exchange of money and labor which transforms the latter into productive labor, and that, on the other hand, the content of this labor also does not matter (for the question whether it is productive or not).

The worker himself can purchase labor, that is to say, commodities supplied in the form of services, and when he spends his wages for such services this is an expenditure no different from spending for any other commodities. These services which he buys may be more or less necessary, for example, the service of a doctor, or a priest, just as he can buy bread or liquor. As purchaser, representing money opposed to a commodity, the worker is in the same category as the capitalist when he steps up as a purchaser concerned only with converting his money into the form of commodities. . . .

Certain services, or the use values resulting from certain activities or labors, materialize in commodities; others, on the contrary, do not

leave any palpable result distinct from the people who perform them, or rather their result cannot be sold as a commodity. For example, the service which a singer renders me satisfies my esthetic needs, but what I enjoy exists only in an action which is inseparable from the singer himself, and as soon as his labor, the singing, is ended, so also is my enjoyment at an end. I enjoy the activity itself, its reverberation upon my ear. These services themselves, like the commodities I buy, can be necessary (or only appear to be necessary), as for example, the services of a soldier, or a doctor, or a lawyer, or they can be services which simply provide enjoyment. This does not affect their economic definition. If I am well and do not need a doctor, or if I have the good fortune not to be involved in any litigation, I avoid like the plague the spending of money for medical or legal services. . . .

If I buy the services of a teacher, not to develop my faculties but to acquire capacities for earning money, or if others hire this teacher for me, and if I actually do learn something—which in itself has nothing to do with the payment for the service—these expenses, just like my expenses for subsistence, belong with the cost of production of my labor power. But the particular utility of this service changes nothing of its economic character; it is not a situation in which I convert money into capital, or through which the professor who provides me these services converts me into his capitalist, his master. It is therefore also all the same for the economic definition of this relationship, whether the doctor heals me, the professor is successful in his instruction, or the lawyer wins my case. What is paid for is the service as such, and its results cannot, in the nature of the case, be guaranteed. A large part of these services belong in the consumption costs of commodities—like a cook, a maid, etc.,

It is characteristic of all kinds of non-productive labor that—like the purchase of all other commodities for consumption—such labor is at my disposal to the extent to which I exploit productive workers. Of all people, therefore, it is the productive worker who has least command over the services of non-productive workers, although it is he who has to pay the most for the compulsory services (government, taxes). Conversely, my ability to employ productive workers does not grow but, on the contrary, diminishes in proportion to the non-productive workers that I employ.

Productive workers themselves can, in relation to me, be non-productive workers. For example, if I have my house papered by workers in the employ of a capitalist who sells me this service, it is as if I had bought a house already papered and had spent my money for a commodity for my own consumption; but for the employer who has these workers do the papering, they are productive workers, since they produce for him surplus value.

But what about the independent artisans and small farmers who utilize no workers and so do not produce as capitalists? Either, as is always the case with small farmers (but not, for example, with a gardener whom I take into my house) they are producers of commodities and I buy commodities from them (in which case for example, it makes no difference that the artisan works on order and the farmer supplies his product to the extent of his means). In this situation, they meet me as sellers of commodities, not as sellers of labor; and this relationship has nothing whatever to do with the exchange of capital; nor consequently with the distinction between productive and non-productive labor, which rests merely on the question whether labor is exchanged for money as money or for money as capital. . . . But their production is not included within the capitalist mode of production. . . . (pp. 421-22.)

In non-material production, even when it is carried on for exchange, thus producing commodities, there are two possibilities:

1. The end products are commodities, use values, having an independent form, distinct from producer and consumer. So they can exist in the interval between production and consumption; they can circulate in this interval as salable goods. Such are books, pictures, in short, all works of art which are distinct from the actual artistic performance of the artist producing them. Here capitalist production finds but limited application. An author, for example, can exploit a number of collaborators for a joint work, let us say an encyclopedia. Here there is commonly a transition form, approaching capitalist production; the various producers, scientific or artistic, handworkers or highly educated, work for the same buying-capital, the publisher. This relationship is not yet in any sense a true capitalist production, and is not even formally included under it. That in these transitional forms the exploitation of labor may be actually the most intense does not change anything.

2. Production cannot be separated from the act of the producer, as with all performers, artists, actors, teachers, physicians, priests, etc. Here too capitalist production occurs to a very limited extent and in the nature of the case can apply only in certain spheres. In institutions of learning, for example, the teachers may be merely wage workers for the executive of the institution as in many such factories of learning in England. Although toward the students they are not productive workers, they are such in relation to the director. He exchanges his capital for their labor power and grows rich thereby. The same thing occurs with such projects as theatres, places of amusement, etc. The public regards the actor as an artist, but to his director he is a productive worker. All these phenomena of capitalist production in this field are so insignificant in comparison with total production that they can be entirely disregarded. (pp. 425-46.)

II.

He [the merchant] performs a necessary function, because the process of reproduction itself includes an unproductive function. He works as well as any other man, but intrinsically his labor creates neither products nor values. He belongs himself to the unproductive expenses of production. His services do not transform an unproductive function into a productive one, nor unproductive into productive labor. It would be a miracle, if such a transformation could be accomplished by a mere transfer of a function. His usefulness consists rather in the fact that a small part of the labor-power and labor-time of society is tied up in this unproductive function. We shall assume that he is a wage-worker, even though better paid than others. Whatever may be his wages, in the role of a wage-worker he always works a part of his time for nothing. He may receive in wages the value of the product of eight working hours, when he performs his functions for ten hours. But his two hours of surplus-labor do not produce any surplus-values any more than his eight hours of necessary labor, although by means of these eight hours of necessary labor a part of the social product is transferred to him. In the first place, looking at it from the standpoint of society, his labor-power is used up for ten hours in a mere function of circulation. It cannot be used otherwise, for productive labor. In the second place, society does not

pay for those two hours of surplus-labor, although they are expended by the man who worked during that time. Society does not appropriate any surplus-product or value through them. But the expenses of circulation, which he represents, are thereby reduced by one-fifth, from ten hours to eight. Society does not pay any equivalent for this fifth of this actual time of circulation, of which he is the agent. But if this man is employed by a capitalist, then the non-payment of these two hours reduces the expenses of circulation of his capital, which represent a deduction from his income. For the capitalist this is a positive gain, because the negative limit for the utilization of his capital is thereby reduced. So long as small independent producers of commodities spend a part of their own time in selling and buying, this shows itself either as time spent during the intervals of their productive function, or as a reduction of their time of production (pp. 149-50).

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