Hyman Lumer

War Economy and Crisis

Does an arms economy bring prosperity? Or only a deeper crisis? How is the worker, the Negro, the farmer, the middle class affected? How are we to shift to a peace economy, avert war, defeat McCarthyism?

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by Hyman Lumer

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THE PERMANENT WAR ECONOMY

Arms Production as a "Panacea"

To the American people, of course, there is nothing new in the idea of producing "prosperity" through arms expenditures. Wartime booms are a familiar enough feature of past war periods. What is new in this country today is the resort to large-scale military spending in peace-time—not as an emergency measure giving rise to a transitory economic boom, but as a permanent part of the national economy, designed to avert periodic crises altogether.

Very little of the money spent for military purposes since the end of World War II has been intended for military conflicts actually in progress. Even the Korean war, during the three years of its life, took no more than roughly one dollar of every seven spent for military purposes.[1] The rest has been used for building air bases all over the world, for erecting and equipping new war plants, and for accumulating vast stockpiles of military equipment for some vaguely-defined future "defense" (actually, in preparation for ultimately waging aggressive war). This spending, moreover, is to be continued indefinitely with the aim, among others, of stimulating production through a constant flow of war orders.

This concept of a permanent war economy has its roots in the central idea of the British economist, J. M. Keynes, that economic crises can be abolished under capitalism, and the economy kept on an even keel, through "pump-priming" programs of government spending together with various types of fiscal manipulations. It was on this idea that the New Deal program was based. But the New Deal program did not succeed in eliminating unemployment or overcoming the depression; it was not until after the outbreak of World War II that the army of unemployed was absorbed and production exceeded the 1929 level.

The leading Keynesian theoreticians rejoiced. Here was a program of government spending that did produce full employment! Here, in the war economy, lay the secret of abolishing crises. Keynes himself asserted that only war economy makes possible sustained government spending on the level needed to provide full employment. He proposed that war economy should be used as a "grand experiment" for determining how to maintain a sufficiently high level of spending after the war.[2] Lord Beveridge similarly sang the praises of war economy: "By the spectacular achievement of its planned economy, war shows how great is the waste of unemployment. Finally war experience confirms the possibility of securing full employment by socialization of demand without socialization of production."[3]

This line of thinking led, in the immediate postwar period, to a rash of schemes for continued full employment, typified by the Beveridge Plan in England, and the Murray Full Employment Bill and the Sixty Million Jobs Program of Henry A. Wallace in the United States. But these schemes were short-lived. Monopoly capital, having embarked on its bipartisan program of cold war and world domination, drew its own conclusions, namely that the benefits of war economy could best be maintained through continued war economy in peacetime as well.

This thinking of American big business has been expressed repeatedly by the ultra-conservative *U.S. News and World Report* in its unending hymns of praise for arms spending. "Armament," it states, "is the great new industry of the 1950's. It's here to stay."[4] And on another occasion: "Depression of a severe kind . . . simply is not in sight. Armament is the great pump-primer of the present and the foreseeable future."[5] And the big business economists, who faithfully reflect every turn in the thinking of the big capitalists, have joined in the chorus. Practically all, from the erstwhile "liberal" Keynesians to the most conservative, have rallied behind the war program of

American imperialism, and have undertaken to provide the necessary theoretical justification for it.

Military expenditures are the antidote for depression, according to them, painful in some respects perhaps, but effective. One economist expresses it as follows: "The great problem of the modern age . . . . is how, eventually, to increase consumption to the point where full production can be maintained. Unfortunately the only respectable method of consumption on a large scale is war, and it is to this that the nations resort, apparently, when the burden of abundance becomes too great."[6] And another, more cynically: "The wars of the twentieth century may be the death agony of capitalism. But war serves also to prolong the agony. For the great deficiency of capitalism, underconsumption, is fully corrected by war."[7]

Here we have the journey's end of the Keynesian theory of prosperity through government spending: war as the cure for "underconsumption" or the "burden of abundance." These are the theoretical trappings of the imperialist war policies.

In the hands of the Truman administration, the Keynesian "managed economy" became a permanent war economy. The armaments program, according to Truman himself, serves as a flexible device for generating prosperity and producing an endlessly expanding economy. The level of military expenditures may be raised or lowered as circumstances dictate; in either case the economy benefits. When these expenditures are high, they stimulate production and employment. If they are later tapered off, the pent-up demand for civilian goods will give rise to an expansion of production in that sector.

Such are the incalculable blessings to be obtained by gearing the economy to a permanent war preparations program. Nor is such an outlook restricted to Truman and the Democrats. The Eisenhower administration, notwithstanding all the election campaign demagogy about balancing the budget, lowering taxes, "getting the government out of business," and so on, adheres equally to the basic Keynesian concept of seeking prosperity through military spending, and has continued to press for a high level of armaments production despite the termination of the fighting in Korea.

Wehrwirtschaft, *American Model*

The brilliant idea of a permanent war economy did not originate with present-day American imperialism or its apologists. It was, in fact, the keystone of the economies of the fascist states in the thirties. Today's war economy is merely a new version of the Nazi *Wehrwirtschaft,* which Ebenstein, in his book on the Nazi state, describes as follows: "The permanent war economy is the organization of the economy in times of peace for the preparation of total war. Practically, therefore, there can be no difference between the so-called peacetime economy and the wartime economy in a regime which is permanently in a state of war with its internal and external enemies."[8] He goes on to quote from the Nazi theoretician, Guido Fischer, who says in part: "*Wehrwirtschaft* is not an emergency system or merely the preparation for a wartime economy. . . . The permanent war economy is rather the new organization of the peacetime economy as required by the present period."[9]

The *Wehrwirtschaft,* which was also held out to the German people as a means of assuring jobs and prosperity, thus represented the conversion of the German nation into an armed camp for an endless period of time. The excuse was "the menace of Bolshevism," both "internal and external."

Similarly, the present war economy is directed toward the conversion of the United States into a permanent armed camp. This was expressed some years ago by Philip D. Reed, chairman of the board of General Electric, who said: "International developments promise to force us to live for some years to come in a garrison state."[10] How long is this "garrison state" to last? Indefinitely, say the Wall Street architects of the cold war, or at least as long as the mythical "threat of Soviet aggression" remains.

The attraction which the Nazi *Wehrwirtschaft* holds for the American monopolists is by no means confined to the present period. It has long been an object of their admiration, and during World War II, even while the United States was fighting Nazi Germany, it was closely and approvingly studied with the aim of attempting to imitate its methods in this country as much as possible. Today it serves them as the model along whose general lines the entire American economy is to be molded.

We need not elaborate here on the insanity of proposing to improve man's lot through ever more feverish preparations to encompass his annihilation. However, these "peacetime" war economies are no military WPA's; nor are they intended to prepare for some vaguely-defined future threat of attack. On the contrary, they constitute preparations for predatory wars of aggression in furtherance of imperialist designs for world domination. Certainly no one today would deny that this was true of the Nazi war economy. It is no less true of the present war economy in this country.

Indeed, militarization of the economy is *inseparable* from preparations for aggressive wars. There is no such thing as arms production simply for the purpose of stimulating industry and providing jobs. For the question immediately arises: Why not spend the money for useful, constructive purposes instead of throwing it away on the manufacture of means of destruction? Large-scale output of armaments can be made to seem justified, and the people can be gotten to accept sacrifices for this purpose, only on the grounds that the armaments themselves are indispensable, that they are required for "defense" against some imaginary threat of aggression. Hence an expanding war economy is possible only in an atmosphere of mounting international tension and war hysteria, nourished by a constant stream of provocations, manufactured incidents, and military adventures, all leading up to the unleashing of an anti-Soviet war.

The rapid growth of the German war economy in the thirties was directly connected with the unfolding of the Nazi program of aggression, and the resultant outbreak of World War II in turn led to the speedy conversion of the "peacetime" war economy to an all-out war mobilization.

The aims of the American imperialists are no different from those of their German forerunners. Their global war plans, however, are as yet a long way from realization. Accordingly, the current armaments program, although it is the largest ever undertaken in peacetime, is still a limited, partial war preparations economy, with the peace sector predominant. It represents a level of war preparations corresponding to the cold war policy, which is one of "neither war nor peace," in its present stage.

Further expansion of the war economy is dependent on Wall Street's ability to intensify the cold war, and ultimately, to convert it into a shooting war. Thus, the launching of the aggression in Korea, with the accompanying wave of war hysteria, provided the conditions needed for greatly increasing the volume of military expenditures.

But the ability of American imperialism to carry out its war plans is more circumscribed than was that of German imperialism in the days of Hitler. The world peace forces are far more powerful today, and their strength is steadily growing. Among the American people there is a widespread desire for peace which made the Korean conflict the most unpopular war in our history, and which continues to plague the warmongers.

As a result of all these factors, American imperialism has suffered some sharp reverses in its war drive, coming to a head in the defeat of its aggressive schemes in Korea. And the prospects are daily growing that the peace-loving peoples of the world may succeed in preventing a third world war.

These factors obviously create obstacles to the further development of the permanent war economy. The Korean truce, for instance, with the consequent easing of world tensions, considerably increased the pressure for reducing armaments. However, the expansionist and aggressive policy of American monopoly capital continues to operate on a global scale, and the monopolists rely on arms production to hold off a depression, thereby constantly tending to increase the danger of war.

To the German monopolists the *Wehrwirtschaft* brought incredible profits, but to the German people it brought only growing poverty and the threat of a new economic crisis, which was averted only by the plunging of the nation into the greater horror of World War II. All this is a matter of history. The present American version of the *Wehrwirtschaft* is similarly bringing fabulous profits to the American monopolists. But for the American people, all the rosy "theories" and illusions notwithstanding, it likewise portends, as we shall show, nothing but impoverishment, crisis and war.

2

WHO PAYS FOR WAR?

The Cost of War

Aside from the incalculable toll which it takes in human lives and suffering, modern warfare is an exceedingly costly business in terms of dollars and cents, and moreover one whose costliness is increasing by leaps and bounds.

The twentieth century, which brought with it the full-blown development of imperialism and the phenomenon of world wars to which imperialism gives rise, also witnessed a thoroughgoing mechanization of warfare. These new features first became fully evident in World War I (1914-18). Not only did this conflict place in the field the largest armies ever assembled up to that time, but even more, in its course there took place a radical change in the instruments of war. New weapons of all kinds, infinitely more complex and deadly than any previously known, were brought into play. For the first time in history, the internal combustion engine went to war in the form of tanks, planes, trucks and other motorized vehicles. The weight of metal behind each soldier was enormously increased.

Consequently, World War I was far more costly, both absolutely and relatively, than any previous war. Whereas the wars of the nineteenth century took about 8% to 13% of the national income of the participants, World War I, which cost some $208 billion in direct military expenditures alone, took an average of fully 50%.[1]

Even for the United States, whose participation in the actual fighting was very limited, the direct cost of the war in the years 1917 and 1918 was about $27 billion, a sum approximately equal to the total cost of the entire federal government (including three major wars) from 1791 to 1914. If we add all indirect costs, the total cost of the war up to 1950 was nearly $42 billion.[2]

These figures are in turn completely dwarfed by the expense of World War II, whose total direct military cost (excluding the war in China from 1937 on) is estimated at $1,117 billion, a sum equal to about 60% to 70% of the combined national incomes of all participants. For the United States alone, the direct cost was about $330 billion, more than twelve times the cost of World War I.[3]

If we include indirect costs such as property damage, pensions, interest, etc., the estimated total cost of World War II as of 1951 was in the neighborhood of $4,000 billion. The ultimate cost to the United States has been estimated at $1,400 billion.[4] This sum is *40% greater than the estimated total national wealth of the United States in 1951.*

This tremendous jump in costs over World War I is due in large part to the much wider scope of the war, the larger armies involved, the far greater amount of destruction and, for the United States, to its more extensive participation. It is also due, however, to the vastly greater intricacy of the armaments and military machinery used in World War II, and the immensely greater weight of metal behind each man as a consequence.

Even these staggering expenses appear small compared to the cost of waging war today. By the end of 1951, the cost of equipping an Army infantry division had risen from $19 million in World War II to $91 million, and the cost of equipping an armored division from $40 million to $293 million. The cost of a B-36 bomber was $3.5 million, as compared to $680,000 for a B-29 in World War II.[5] And so on.

To be sure, much of the increase in cost is due to inflation, but for the most part it reflects a further large increase in the intricacy and costliness of modern war machines since even the days of World War II. And this does not take into account that most costly of all new weapons, the atom bomb.

The cost of the last war can no longer serve as a criterion for today. The direct cost of a third world war would be many times greater than that of World War II, even on the same scale. If we take into consideration the much bigger scale on which such a war would be fought, and the immeasurably greater destruction of property (not to speak of the incalculable toll in human life) which would result, the potential costs literally defy imagination. Certainly no nation could long bear such a financial burden without suffering the severest privation and facing the prospect of utter financial ruin.

There are some who think that such frightening prospects are likely to have a sobering effect on those in power, and to deter the imperialists, however greedy they may be, from becoming embroiled in all-out war. This, however, is simply a delusion which fails to take into account the all-important fact that the very increase in war costs makes war production that much more profitable to the monopolists who foment war, and hence that much more attractive to them. For it is not monopoly capital which bears the brunt of the cost of war, but the great masses of working people, at the expense of whose sweat and sacrifice the immense wartime profits are gotten.

What Today's War Economy Costs

Prior to its entrance into World War I, military expenditures of the United States government amounted to about $750 million a year, or less than 3% of the national income. In the fiscal year 1918-1919 they reached a peak of $18.5 billion, or about one-third of the national income.[6] After the war they fell rapidly to the prewar level. In 1939, they were no more than 1.7% of the national income, or 1.3% of the gross national product (the market value of the total private and government output of goods and services).

World War II brought direct military outlays, in 1943 and 1944, to a new record of 41% of the national product. But in this instance, military expenditures after the war did not return to the prewar level. On the contrary, they remained at all times considerably above the 1939 figure. Even at their lowest postwar point in 1947, they still comprised over 5% of the national output. Furthermore, they came to 76% of total federal purchases of goods and services, compared to 23% in the year 1939.[7]

Such a volume of military spending, totally unprecedented in peacetime, reflected the militarization of the economy dictated by the aggressive cold war program. Under American pressure, the governments of the Western European countries also began to militarize their economies. However, American military expenditures far outstripped all others. Before the Korean war, they were four times as great as Britain's and double the military spending of the rest of the capitalist countries combined.[8]

By the middle of 1948, total expenditures on armaments and on Marshall Plan and other forms of foreign "aid" were running at the rate of over $17 billion a year. Bolstered by these expenditures, a postwar economic upturn was sustained through October 1948. But at that point a sharp economic decline set in, which even a $17-billion annual level of military spending could no longer prevent, and which became steadily worse in the succeeding months.

For this disturbing slump, monopoly capital had but one "solution"—more arms expenditures. The necessary excuse was provided by the imperialist aggression in Korea, launched in mid-1950. A national emergency was declared, and plans for a vast expansion in military production were set in motion.

War expenditures shot up. By mid-1952, they had grown to a rate of more than $50 billion a year, or nearly 15% of the gross national product and over 90% of total federal purchases of goods and services. In mid-1953, they were running at an annual rate of $53.5 billion, or 14.3% of the national product.

This, however, constituted only a partial fulfillment of the contemplated goals which, as outlined by Truman in 1951, called for outlays by mid-1952 at the rate of nearly $65 billion a year or about 20% of the gross national product.[9] The achievement of this peak was to be followed ultimately by a tapering down to a permanent rate estimated at not less than $40 billion a year.

Although the proposed peak was never reached, the general perspective remained essentially unchanged throughout Truman's term of office. And the outlook of the Eisenhower administration, despite the campaign promises to cut military expenditures, is basically no different. Even though the $65-billion goal had been abandoned, administration plans in the fall of 1953, in spite of the cessation of warfare in Korea, called for relatively little reduction in arms spending below the then current level. Nor did the cuts subsequently called for by the "New Look" program in military spending go materially beyond the tapering down originally envisioned.

The present rate of military spending is formidable, especially coming as it does on top of the huge expenditures of the last war. In terms of the gross national product, it is well over one-third the peak rate of World War II. In the entire history of this country, nothing approaching it has ever existed in the absence of full-scale warfare.*

Yet this is but a fraction of what an all-out war economy would require today. If we allow only for the rise in prices since 1944, simply to duplicate the 1944 volume of military output at 1953 prices would demand an annual outlay of over $146 billion.[10] And it is plain that, with the much greater complexity of military equipment today, far more would be required than the mere duplication of the 1944 scale of war production.

There are additional reasons why a new world war would be infinitely more costly than the last one. In the first place, American imperialism can no longer sit back and reap profits while others do the fighting. This time it is American men and arms that must bear the brunt of combat, and American cities and factories which run the risk of destruction. This time there would be no strong, dependable allies; instead, additional billions of dollars must be squandered on the arming of bankrupt and reluctant satellites.

Secondly, resistance to colonial enslavement has grown to truly

* It should be noted that the sums actually spent have been far less than the amounts appropriated. From the outbreak of the Korean war to February 1953, Congress appropriated about $181 billion for military purposes, of which at the time nearly $94 billion remained to be spent. To this, the proposed budget for the fiscal year 1953-54 added over $54 billion more in direct military appropriations and foreign "aid." (*U.S. News and World Report*, January 6 and March 20, 1953.) There is thus a big backlog of appropriations available for stepping up military expenditures considerably at any time.

formidable proportions. What was undertaken originally as a "police action" in Korea became a long-drawn-out war in which the forces of American imperialism, though they levelled an entire country and slaughtered millions of its people, were unable to gain a decision. After three years of fighting, with over 142,000 American casualties (more than the number of casualties in the entire Pacific theater of World War II in the same length of time) and a direct expenditure of over $20 billion (more than two-thirds of the total direct cost of World War I), the war ended in a complete stalemate.[11] And we may be sure that in any new military adventures it undertakes, American imperialism will certainly fare no better.

The costs of empire-building are becoming prohibitive indeed! For the American people the financial burden of an all-out war mobilization would sooner or later mean sure disaster; in fact, even the maintenance of the present level of war spending has already given rise to serious financial difficulties.

Who Pays the Taxes?

Whatever the immediate means employed to finance military expenditures, the only ultimate source of funds is taxation; hence war economy invariably brings with it a vastly increased tax burden. Ordinarily, in periods of large-scale war spending the major part of the expense was met through government borrowing, but even this necessitated immediate tax increases, at least sufficient to meet the mounting interest payments. Moreover, the possibilities of borrowing, without creating uncontrolled inflation and economic chaos, are by no means unlimited. Consequently, a substantial share of war costs must be financed directly through increased taxation.

Historically, this share has tended to increase. The United States raised approximately 37% of its direct war costs through taxation in World War I, and nearly 45% in World War II.[12] And the current war economy has been financed, at least up to the present time, more than 90% through taxation. This trend is due chiefly to the growing costliness of war; in particular, it arises from the tremendous expansion of the national debt in past wars and the limitations this imposes on further borrowing.

The effect on the American people has been a progressive rise in the tax load, which today has reached gigantic proportions. As Table I shows, federal taxes per person, which skyrocketed during World War II, and which declined relatively little after the war, have increased still more since the Korean war. Thus, the per capita tax for fiscal 1953 exceeded the World War II peak by more than 40% and the immediate pre-Korean level by 70%.

TABLE I

FEDERAL TAXES PER CAPITA FOR SELECTED YEARS

Fiscal Year (ending June 30)	*Per Capita Tax*
1914	$3.84
1920 (World War I peak)	51.
1930	25.
1939	40.
1945 (World War II peak)	313.
1950	258.
1952	426.
1953	440.

SOURCES: *Historical Statistics*, pp. 26, 302; *Statistical Abstracts*, 1951, pp. 8, 313; *Treasury Bulletin*, August 1953; *Survey of Current Business*, September 1953.

The cumulative effects of piling one war economy on top of another are shown also by the fact that the Truman administration, in a period of seven and one-half years, collected some $310 billion in taxes, *or $65 billion more than the total taxes collected in 156 years by all previous administrations combined.* In the fiscal year 1952-53, the total volume of taxes came to *more than 30% of the national income,* and was *50% greater than the entire nation's food bill in the same period!* Moreover, this enormous drain, of which more than 85% goes to pay for past and present war expenditures, cannot be reduced as long as even the present level of military spending is continued; if anything, it is bound to increase still more.

This, however, is only one part of the picture. Even more important is the following: Hand in hand with the skyrocketing of taxes, the tax load has been shifted more and more to the backs of the working people and poor farmers, those with the lowest incomes. This is shown, first, in the disproportionate increases in income taxes. In 1939, 4 million individuals paid income taxes; in 1951, 44.3 million. In 1939, individuals with taxable incomes under $5,000 a year paid less than 10% of all federal income taxes; in 1949, they paid nearly 40%.[13] Secondly, wartime taxation is characterized by a huge increase in excise taxes of all sorts. These bear most heavily on the lowest income groups. The ratio of such taxes to total tax collection has risen considerably in recent years, especially if the large increase in state and local taxes is included. From 1944 to 1950 alone, revenues from direct sales and consumption taxes at all levels rose from 12% of the total to 20%.[14]

The shunting of the tax burden onto those least able to pay has been accelerated since the end of World War II, and especially since the outbreak of the Korean war. The 1945 Revenue Act immediately repealed the excess profits tax and reduced corporate profits taxes generally. Then, with Olympian impartiality, it allowed a flat "across-the-board" 5% reduction in all income tax brackets. This type of "equality," which saved the average worker almost nothing, while wealthy individuals had their taxes reduced as much as 37%, was repeated in the Revenue Act of 1948.[15]

The "equality" was forgotten, however, when taxes were again increased after Korea. The Revenue Act of 1950 raised the income tax of the average worker by over 20% and of the wealthy capitalist by only 11.5%.[16] The same inequity was perpetrated in the Revenue Act of 1951. And in the 1954 tax "reduction," the small income tax cut in the lower brackets was wiped out by a simultaneous rise in the social security tax.

Out of his grossly inadequate wages, the average American worker today pays a big chunk in taxes of all kinds. Even the most conservative estimates place it at 25%, and others as high as 33%. But even more, as a recent CIO study shows, he pays out practically as large a share of his meager earnings as do those enjoying incomes many times as large.[17]

The same wartime tax laws which so drastically raised the taxes of working people, also allowed enormous tax concessions for the big corporations, concessions which have saved them billions of dollars. The World War II excess profits tax law, generally honeycombed with loopholes and limitations, also provided at the end of the war for refunds of 10% of all excess profits tax payments, as well as numerous other types of rebates. In particular, the law contained a carry-back provision allowing tax rebates if postwar profits in any year should fall below the 1939 level. The effect of this provision was to hand the big corporations a huge strikebreaking fund, of which they promptly took advantage at the end of the war, when millions of workers in basic industries were forced out on strike. The striking workers lost many weeks' wages, but the big steel, auto, electrical and other companies were reimbursed by the government for most of the profits they had lost because of the strikes.[18]

In addition, big business received a huge wartime windfall in tax reductions by being permitted to write off the depreciation of new war plants in one-fourth the usual time. Through such reductions, the big industrial corporations were able to emerge from the war with billions of dollars worth of new plant and equipment which cost them almost nothing. After the outbreak of the Korean war, this bonanza was re-instituted on a still larger scale, as will be shown later.

This by no means exhausts the list of devices through which the monopolists have been able to effect huge tax savings. It does not include the fraudulent "excess profits" tax law of 1951, which is shot through with loopholes and has almost completely failed to recapture war profits.* Nor does it include the innumerable devices for tax evasion through which wealthy individuals and corporations mulct the government of billions of dollars every year, or the under-cover deals made with corrupt tax officials.

* The estimated yield of this tax for 1953 was $1.6 billion. But this represents the tax on only one-third of the amount which, according to the provisions of the law, should have been subject to excess profits tax (Labor Research Association, *Economic Notes,* May 1953). Hence, aside from the gross inadequacy of the tax imposed, the loopholes were such that two-thirds of this amount was evaded. Such an "excess profits" levy is clearly little more than a hoax.

It is small wonder that high taxes have long been a major source of discontent and resentment among the American people. They are quite understandably up in arms over a tax burden which has already become intolerable and threatens to become even more so. This resentment, which was a powerful factor in the Democratic defeat in the 1952 elections, big business seeks to harness to its own reactionary aims.

The difficulties created by the mounting tax burden have given rise to sharp differences among the monopoly capitalists themselves. These emerged as early as 1951, in the furious debate which took place over the Truman administration's demand for a $10-billion tax boost. They reached a new climax in 1953, in the fight within the Republican Party over the issue of income tax reductions.

In these fights, certain monopoly spokesmen have come forward as champions of lower taxes, and have sought to enlist the mass support of the working people. Their aim, however, is not the reduction of the taxes paid by low income groups. It is rather to cut the taxes paid by big business, and to shift these taxes to the workers in addition to those they already pay. The differences of opinion are only over the manner and tempo of effecting such shifts.

In the first place, aside from the elimination of the so-called "excess profits" tax and a big cut in corporate taxes generally, what is proposed is new "across-the-board" cuts in personal income taxes which, as we have seen, save pennies for the worker and millions for the big capitalist. And this is accompanied by open demands for shifting the income tax burden still further to the working people through reduced exemptions and higher tax rates in the lower income brackets.

At the same time, the campaign for a federal sales tax has been greatly stepped up. Such a levy, in the particularly vicious form of a so-called manufacturers' excise tax, has long been advocated by the National Association of Manufacturers. Now the Eisenhower administration has itself taken up the cudgels for this kind of soak-the-poor tax as a substitute for taxes on corporate profits and big incomes.

Finally, there is a little-publicized but intensive drive for a constitutional amendment placing a 25% limit on individual and corporate income taxes. At the end of 1952, 28 state legislatures had already passed resolutions calling for such a limit, with only four more required to compel Congress either to submit an amendment to the states for ratification, or to call a constitutional convention for the purpose. Such an amendment was introduced in both houses of Congress at the outset of the 1953 session.

The aim of the monopolists is clear enough. Nor do they conceal this aim, despite the tears which they shed for the "poor taxpayer." The workers *should* pay more taxes, they assert, because the working class receives the biggest part of the national income. Furthermore, higher taxes are necessary to siphon off the "excess purchasing power" of the workers, which (so they claim) is the cause of inflation. And the taxes on corporate profits and big personal incomes should be reduced, because the present rates are "destroying incentive."

We shall deal with each of these fraudulent arguments further on. At this juncture, it is sufficient to point out that today an average worker with a family, whose gross wages are $65 a week, is already earning roughly 25% less than what the Bureau of Labor Statistics regards as sufficient to maintain a minimum standard of health and decency. Further, when such a worker pays out $16 to $20 a week in taxes, he has already taken a big cut in his inadequate wages, and is left with a balance on which he cannot begin to make ends meet. Finally, he is already being taxed far out of proportion to his ability to pay. Yet the inevitable prospect which an expanding war economy holds for him is one of still more tax increases, accompanied by the shifting of an ever larger share of the tax burden to his now over-loaded shoulders.

The need to fight for lower taxes is already painfully apparent to broad sections of the American working people. What must also be made clear is that such a fight cannot be won if it is based on acceptance of the war economy and demands for "equality of sacrifice." Taxes cannot be reduced without first sharply curtailing the costly armaments program. Hence the struggle can be successful only if it is based on opposition to the war economy itself, on the fight for peace and an end to all large-scale military expenditures. This is the only real alternative to a ruinous flood of taxation.

Government Borrowing

It is not only through taxation that the capitalists endeavor to saddle the working people with the costs of war. The same end is achieved also through government borrowing to defray military expenditures.

Historically, as Marx pointed out, the national debt has been from the very beginning a source of enrichment for the capitalist class: "As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state-creditors actually give nothing away, for the sum lent is transformed into public funds, easily negotiable, which go on functioning in their hands just as so much hard cash would."[19]

Thus, investment in government bonds enables the capitalist to convert his money into a form which brings him an assured return in interest and yet leaves it virtually as liquid as if he had it in cash. The major part of the taxes from which the interest payments are made come from the pockets, not of the capitalist himself, but of the workers, who at the same time own comparatively very little in the way of government bonds. The national debt thus serves as an added means of transferring surplus value, through the intermediacy of the government, to the pockets of the capitalists. This is its fundamental role in every capitalist state.

The national debt is especially a product of war economy, for it is principally in times of war that it grows by leaps and bounds. In the United States, it was comparatively small up to the time of the first world war. In December 1916, the gross direct debt stood at $1.2 billion. By the end of 1919, however, it had grown to $26 billion. It then declined slowly throughout the twenties, reaching a low of about $16 billion in 1930.

The second big jump in the national debt took place in the depression period of the thirties, when it rose to some $40 billion by mid-1939, on the eve of World War II. But this increase was eclipsed by the scale of government borrowing during the war, which brought the total debt, in February 1946, to an all-time peak of more than $279 billion. This was more than one and one-half times the national income in 1946, and nearly 45% of the total national wealth.

Since the end of the war, the debt has remained at a very high level. By the end of 1948, it had fallen only to about $253 billion, after which it rose again. In November 1953, it had reached the legal debt ceiling of $275 billion, and was on the road to new records.

Such an enormous volume of debt naturally gives rise to a vastly expanded burden of interest payments. In fiscal 1946, these payments amounted to $4.7 billion, and by fiscal 1953 they had grown to $6.5 billion—nearly twice the combined federal expenditures on social security, housing, and public works in the same year.

These huge interest payments constitute no small bonanza for the big holders of government bonds—the banks, industrial corporations, and wealthy individuals.

Thus, of the federal securities outstanding in January 1951, commercial and federal reserve banks, insurance companies, mutual savings banks and corporations together owned more than 50%.[20] Of the $67-billion worth of securities owned by individuals, comprising an additional 26.2% of the total outstanding, about $34.5 billion were in Series E savings bonds. Of these, the amount outstanding in bonds of $25 and $50 denominations can be estimated roughly at $10 billion. Since these are the denominations which have been sold chiefly to wage earners, they are a rough index of ownership of bonds by low-income groups. If we allow another $5 billion for bonds indirectly owned by these groups through benefit associations, insurance companies and other organizations, we can conclude that, *at most*, no more than about 6.5% of all outstanding privately-held government bonds are owned by working people. Moreover, since the end of World War II, as workers have used up what savings they had, redemptions of the lower denominations have consistently exceeded sales, while the opposite has been true of the higher denominations, so that this percentage is undoubtedly decreasing.

Clearly, then, it is big business, and not the working class, which receives the interest on the national debt. The prospect of increased interest payments on government bonds, like that of increased profits on war orders, is a powerful motivating factor in the pressure for war on the part of finance capital, as Perlo observes: "As the principal holders of government bonds, the banks and insurance companies receive the bulk of the more than five billion dollars per year in interest on the national debt. Thus the financiers have a huge stake in the expansionist activities of the government, and especially in the imperialist wars which account for almost all of the national debt. A third world war might ruin the American people, but it would mean an extra ten to twenty billion dollars a year in interest."[21]

For finance capital, government borrowing for war is doubly profitable. Not only do the Morgans, the Rockefellers, the du Ponts, the Mellons and the other big finance capital groups get interest on the money they loan, but they again make a profit on the same money when it returns to them in the form of payments for war orders. The two go hand in hand as devices for plundering the federal treasury and the working people, who are increasingly compelled to foot the bills.

"Theories" of the National Debt

In view of the growing parasitic dependence of monopoly capital on large-scale government spending for arms as a major source of profits, it is not surprising that the big business economists should come forward with all sorts of theories glorifying government borrowing. Indeed, there has arisen in recent years a "new philosophy of the national debt," a conception of government borrowing as a sure way of averting economic crises, and a magical means of increasing wealth, revitalizing the economy, and generating eternal prosperity. The national debt, according to this school of thought, is among the nation's most valuable assets, and the greater the debt, the greater the assets. This conception of limitless government spending and deficit financing as a perpetual "operation bootstrap" is, as we have already noted, at the heart of the Keynesian economic theory which, in one form or another, today dominates the thinking of the capitalist class.

During the New Deal era of the thirties, there were important differences within the ranks of the capitalists on the question of government spending, affecting policy. While the great majority howled that the New Deal expenditures for social welfare would bankrupt the country, some gave a measure of support to New Deal reforms as a means of combatting the depression and saving capitalism. These differences were reflected in a division of Keynesian economists into "liberal" and "reactionary" schools.

Today, however, with monopoly capital basically united behind a policy of aggressive expansionism and war preparations as the primary means of averting depression, this distinction among the economists has lost much of its original significance. Today it is increasingly asserted that it makes no difference whether the money borrowed by the government is spent for social welfare or for war. In the words of the "liberal" Keynesian economist, A. H. Hansen, "once the debt has been incurred, its subsequent impact upon employment and the distribution of income will be the same regardless of the purpose for which the debt was incurred."[22]

Today, even "liberal" Keynesians have for the most part become theoretical apologists for expansionist policies and huge military budgets as the principal means of saving American capitalism. Indeed, enormous military outlays and the endless expansion of the national debt are widely defended as the very cornerstone of capitalist prosperity. Consequently, the differences among the Keynesians have been reduced chiefly to disagreement over such questions as the extent and the manner in which military expenditures may need to be supplemented by other forms of government spending.

Of course, from the viewpoint of the economic struggles of the working people these differences are not unimportant. Moreover, as the symptoms of economic crisis multiply, and as monopoly capital is compelled increasingly to consider other forms of government spending as anti-crisis measures, they may assume greater importance. Nevertheless, it is military spending which is regarded as the most efficacious anti-crisis measure, and in whose name virtually unlimited government borrowing is glorified.

The huge size of the national debt is defended by the "liberal" Hansen, who characterizes the huge wartime increase in the federal budget as "one of the major gains from the war experience," and maintains that "a factor that makes the postwar prospects definitely more favorable than the prewar record is the revolution that has occurred in the size of the federal budget."[23] It is also defended by the ultra-conservative Slichter, who asserts that a large debt has a stabilizing effect on the money supply, and that, even though it increases the burden on the taxpayers, it greatly improves the financial position of the firms and individuals who own government bonds.[24] In fact, many of the very same people who previously contended that a debt of $50 billion would inevitably lead to national bankruptcy are today enthusiastic champions of a debt more than five times as large.

How much more can the national debt be increased? Almost endlessly, say the Keynesians, for "we owe the money to ourselves." Thus, says C. E. Ayres: "Economists are pretty well agreed that the size of the national debt is immaterial for this reason: every bond is an asset as well as a liability. . . . If the community is the debtor, the community is the creditor in the same amount (assuming . . . that the debt is domestically held, as is true of our national debt)."[25]

The whole "theory" may be summed up as follows: The possibilities of generating prosperity through government borrowing are practically unlimited, and it makes no difference whether the borrowed money is spent on schools and low-cost housing or on warplanes and H-bombs. Nor does it matter how much is borrowed. All that is necessary is that the debt, whatever its size, be properly "managed" in order to steer the ship of capitalist economy safely between the Scylla of inflation and the Charybdis of depression toward the shore of a bountiful life for all.

The only thing wrong with these pleasant fantasies is that they do not conform in the least to reality. For one thing, the debtors and creditors are clearly *not* identical. The "community" of which these capitalist theoreticians constantly speak is a *class* society in which the capitalist class owns the bulk of the bonds and collects the bulk of the interest, while the working class pays the bulk of the taxes from which the interest payments are met. A growing debt means a growing burden of taxes on the workers and a corresponding cut in their purchasing power. Second, as we shall show, large-scale borrowing is invariably accompanied by inflation, which also destroys purchasing power and leads to growing mass impoverishment. And third, it obviously makes all the difference in the world to a worker whether government funds are used to provide him with decent housing and increased social security benefits, or for the manufacture of instruments of mass destruction.

Government borrowing, therefore, does not produce money out of thin air through a sleight-of-hand process of loaning it to oneself, but ultimately out of the economic hides of the working people. All the fancy theories of prosperity through vast military expenditures and limitless borrowing are merely efforts to justify such plundering of the people for the benefit of a handful of financial parasites. In the sections which follow, we shall see that this plunder, far from producing prosperity, is helping to lay the groundwork for a devastating crisis.

The Myth of "Guns and Butter"

Widely prevalent in this country are the misconceptions that military production simply can be added on to civilian production, and that by spending money for war preparations the federal government can increase national production and purchasing power in direct proportion to the amount spent—in a word, that it is possible, at least in the United States, to have both "guns *and* butter." Indeed, this fable (which is merely a variant of the Keynesian fantasy that through deficit financing the government can inject new purchasing power into the economy in any desired quantity) is a favorite theme among the propagandists for American imperialism's rapacious war schemes.

The experiences of the United States in both world wars, and especially in the second, have lent this idea a certain spurious aura of plausibility. For in World War II, did not this country double its total industrial output? And, despite the huge share devoted to war goods, did not civilian consumption also increase? And were not large numbers of people much better off than they had been before the war? Then certainly it should be possible to carry the present, much lower burden of war preparations, and even a much larger one, and still increase civilian production and living standards.

This is the argument advanced most widely by the proponents of the war program. Typically, Truman declared in his mid-1952 economic report: "The expansion of the economy which we can achieve within this decade is of a size sufficient, while supporting any foreseeable security programs short of total war, to enable us at the same time to lift progressively the standard of living, to come near wiping out poverty within our own boundaries, and to make our proper contribution toward a more prosperous and a more peaceful world."[26]

Such rosy conclusions, however, are warranted neither by the experiences of the last war nor of the current war economy. In the first place, the phenomenal production increases of World War II were possible only because of the depression conditions which preceded the war. (It may be noted that similar conditions, even though not nearly as severe, existed prior to World War I.)

In 1939, the United States had only partially recovered from the depression of the thirties. Industrial production was still below the 1929 level. At a conservative estimate, nearly 9.5 million were unemployed, and there was much unused plant and equipment. By putting the unemployed workers and unused capacity to work, it was possible for a time to expand both military and civilian output. *But this could continue only up to the point of relatively full employment. After that, increased military output could be obtained only at the expense of the production of civilian goods.*

It is quite true that during the war civilian consumption rose above the 1939 level. But it must be remembered that this was an increase relative to near-depression levels of consumption, when large numbers were reduced by chronic unemployment to the barest necessities. It must also be remembered that many types of goods had to be rationed, that there were growing shortages and deterioration of quality in many lines, and that the production of many durable goods items was either drastically reduced or (as in the case of automobiles) suspended altogether. Finally, as the war proceeded and expansion of production was confined solely to war goods, the output of civilian goods in general began to suffer increasingly from deterioration of equipment and shortage of manpower. Thus, long before the end of the war a point was reached where civilian production could no longer be increased but had to be curtailed. Had it not been for the prewar depression conditions, this point would have been reached much sooner.

Productive capacity is measured, not by the number of dollars which the government can place in circulation, but by the size and quality of the productive facilities and the work force. Once these are fully utilized, the possibilities of further expansion of output are sharply limited, and military production can only *replace* civilian production. The dollars which the government spends do not come from nowhere. They must be taken from the sum of civilian purchasing power either through taxation or by rendering the dollars in the people's hands worthless by inflation. In either case, the real costs of war must be paid while the war is in progress, through decreased purchasing power and reduced living standards.

It is inevitable, as Stalin declared, that "the multiplication of a country's armed forces and an armaments drive lead to the expansion of war industry, to curtailment of civilian industry and halting of large-scale construction work, to increased taxation and rising prices of mass consumption commodities."[27] And to this the United States is no exception.

Today the gap between actual and full utilization of resources and manpower is far less than in 1939, and the impact of full-scale war production is therefore bound to be far more severe. Monopoly capital, despite all the false "guns and butter" propaganda, is quite well aware of this. Its authoritative organ, *Busi-*

ness Week, expressed it very plainly in a 1948 article on the economic consequences of a new world war, which said:

> In 1939, three-fourths of the nation's output of goods and services was used to satisfy personal demands. By 1944, only half of the output was available to the consumer.
>
> But the nation, in 1944, was producing 75% more than in 1939. So there was actually more for the consumers, at the peak of the war, than they had been accustomed to getting in peacetime. . . .
>
> Today, once more, the consumer is getting nearly three-quarters of the nation's output. But this time it is three-quarters of an output already very near capacity.
>
> If industry had to mobilize today, output could be increased a little—by longer hours of work, by putting more women to work. But it could not increase very much; it would quickly come up against inflexible limits. . . .
>
> So to get even as much munitions as we did before, consumption would once more have to be limited to about half the national output. And this time that would mean a sharp drop in what's available for civilians.

Nor does this spokesman of big business fail to draw all the necessary conclusions. "All the candy," it says, "has been passed out now. This time there would be nothing left but the whip."[28] The whip, that is, of unendurable taxation, frozen wages and unparalleled inflation, enforced by fascist regimentation. And this whip is already felt by the American people today, even at the present level of the war economy.

War Economy and Inflation

War and inflation are inseparable phenomena. Every major war in the history of the United States, as Figure I shows, has been accompanied by pronounced inflation and skyrocketing prices. There is nothing accidental or coincidental about this, for inflation is inherent in war economy.

Inflation occurs when spending power is increased relative to the amount of goods available. In peacetime, this occurs to some extent in every boom period. Booms are marked by considerable expansion of capital investment, and there may be an appreciable lag between the monetary outlays for such purposes and the ultimate appearance of finished goods on the market. Sooner or later, however, the increased demand gives rise

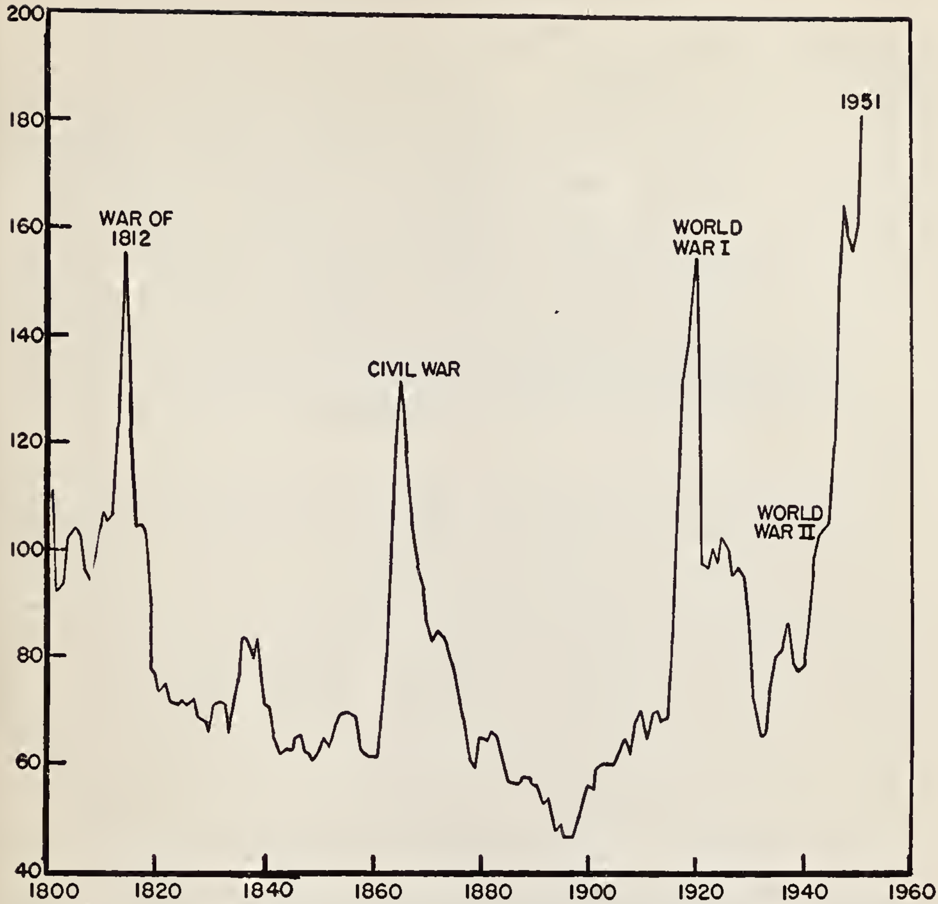

FIGURE I. Bureau of Labor Statistics Index of Wholesale Prices, 1801-1951 (1926 = 100). SOURCES: *Historical Statistics,* pp. 233-234; *Monthly Labor Review,* June 1952.

to production of a flood of consumer goods more than ample to wipe out scarcities, and thus to wipe out any basis for inflation.

War economy differs radically from the situation in a peacetime boom, for in this case the capital outlays are *never* followed by the production of new values in the form of consumer goods. Instead, through the production of war goods, capital outlays result in the destruction of existing values. The billions of dollars poured into the market for wages, raw materials and capital goods needed for the production of war materials, as well as the additional billions spent on the maintenance of armed forces, yield neither means of consumption nor means of production, but only means of destruction.

The removal from circulation by the government of vast quantities of commodities earmarked for destruction gives rise to severe shortages of all such commodities. Furthermore, the effort to satisfy this unyielding demand requires a sharp curtailment of civilian goods production, and thus creates shortages all along the line. A "sellers' market" is created, with its unending pressure for higher prices, and the doors are thrown open to unlimited price gouging and profiteering. Here lies the root of the inescapable generation of inflationary pressures by the war economy.

The purchase of war goods must be financed by using the authority of the government to transfer the necessary amount of purchasing power from private hands to its own. In part, this is accomplished through increased taxation. This, capitalist spokesmen are fond of arguing, is the most preferable way, the "heroic way," the one sure guarantee against inflation. For if the war economy were placed on a "pay-as-you-go" basis, that is, if the entire costs were paid from current taxes, this would take away an amount of private purchasing power exactly equal to the excess created by the government demand for war goods. Private demand would be reduced in accordance with the reduced supply, and the pressure for higher prices would disappear.

In the eyes of these "experts," the problem of combatting inflation is simple enough. War spending has created an "inflationary gap." There is "too much purchasing power" in the hands of "the people," and this excess must be eliminated. How? First of all, "the people" must work harder and produce more. At the same time, wages must be frozen, for wage increases set off an "inflationary spiral" by adding still more to the excess purchasing power. And last, but not least, the excess must be siphoned off through drastic tax increases combined, if necessary, with compulsory savings.

The fiction that higher wages are responsible for wartime inflation, which is but another refurbished version of the hoary falsehood that wages determine prices, will be dealt with at greater length in the next chapter. At this point, it is enough to emphasize what has already been said, namely, that inflation arises out of the destructive character of the war economy itself. It is not a result of higher wages, and can occur just as much even if wages are cut.

The fact is that the excess purchasing power does not appear in the hands of the working people, but *in the hands of the big capitalists, in the form of enormously swollen war profits.* It is therefore pointless to talk about "closing the inflationary gap" unless these wartime superprofits are taxed at a level which amounts to outright confiscation, and this in addition to steep rates of taxation on "normal" profits. Obviously the monopolists, who are motivated solely by their drive for maximum profits, would resist any such step with every ounce of their strength.

All the talk about pay-as-you-go policies of war finance is designed purely to justify the merciless heaping of taxes on the backs of the workers. In practice, when confronted with the necessity for increasing their own taxes, the big capitalists have always fought against pay-as-you-go policies, and have advocated large-scale government borrowing instead.

Extensive government borrowing is advantageous to the capitalists not only because of the interest payments they receive, but in addition because the currency inflation to which it gives rise serves also to throw the burden of the war costs on the workers.

When government bonds are placed on the market, they may be purchased by individuals, corporations or other groups out of current income, various forms of savings, or idle liquid capital. Through such sales the government borrows a part of the existing money supply and obtains a part of the existing purchasing power pretty much as it would through taxation.

These sources are limited, however, and with borrowing of the proportions required by a large-scale war economy, they are eventually exhausted. The government is then compelled to borrow increasingly from the commercial and federal reserve banks. In the course of World War II, 22.5% of all federal loans were made from these sources.[29]

Such borrowing, instead of drawing on the existing money supply, is equivalent to printing new money. When a bank buys government bonds, it simply credits the government's account for the amount involved, and the government then uses the account to pay its bills. This is a bookkeeping transaction which places in the hands of the government a quantity of new purchasing power not matched by any increase in the supply of goods. Its effect is to place additional money in circulation, pretty much as if the government had simply printed it and used it to pay its bills. What it has done instead is to create "credit money." In addition, corporations and individual capitalists, finding more profitable investments in war industries, use their holdings of government bonds as collateral for bank loans, which likewise creates new purchasing power and adds to the money supply.

A large rise in the amount of money in circulation is thus characteristic of every war economy. In the United States, in the course of World War II, it rose from $7.6 billion at the end of 1939 to $28.5 billion at the end of 1945—a nearly fourfold increase. By the end of 1952, it had grown to $30.4 billion.

Such currency inflation progressively robs money of its value. The money buys less and less, and purchasing power and real wages are reduced as effectively as if a direct tax, absolutely uniform in rate, had been imposed on everyone. As the British economist Pigou expresses it:

> Its effect is to give the government more purchasing power, and thus to deplete the real value of the purchasing power left to private persons. In this way it enables the government to get possession of more things and services, and so constitutes, as against the public, a concealed form of taxation. *This taxation, moreover, is not graduated in any degree and not adjusted in any degree to the size of a man's family. It is simply proportional to income without even an allowance to very poor people of a tax-free minimum of subsistence. This kind of taxation is generally acknowledged to be unfair and oppressive to the poor.*[30] (Emphasis added.)

Small wonder that the monopolists so greatly prefer inflation to higher income taxes! But this is not all. The monopolies profit from inflation also because, during every period of rising prices, the prices of manufactured goods go up first, to be followed only later by raw materials, and last of all by wages. And in the present stage of capitalism, this lag is made all the greater by the ability of the monopolies to fix prices. Moreover, pronounced inflation opens the door to speculation on a huge scale, to the accelerated absorption by the trusts of smaller enterprises threatened with ruin, and thus to the general tightening of the economic stranglehold of monopoly capital.

In the end, extensive inflationary borrowing opens the way to uncontrolled, "runaway" inflation. Currency becomes worthless. The government bonds themselves lose their value, and the government is compelled to resort more and more to direct forms of printing-press money, with which the nation becomes swiftly flooded. For large masses of people this means unmitigated impoverishment and ruin, but to a handful of finance capitalists it brings a rich harvest from their suffering. The main sections of monopoly capital, even though they generally express a preference for keeping inflation "within bounds," are not always averse even to such uncontrolled inflation. In fact, it has on more than one occasion been deliberately engineered by them, the most notorious example being the fantastic inflation in Germany in the twenties.

In short, however disastrous inflation may be for the masses of the working people, monopoly capital benefits from it at the expense of the people, and hence is not basically opposed to it.

The Threatening Financial Crisis

It is generally acknowledged that the condition of the federal finances has been growing steadily more unsound and precarious. Prices have risen far above World War II levels and are now at the highest point in our history. The value of the dollar has been sharply reduced and its stability considerably weakened. Taxes have reached an all-time peak, yet there are growing deficits in the federal budget. The national debt is constantly increasing, and threatens to rise far above its World War II peak.

The cause of these dangerous symptoms is unquestionably the inordinate growth in military expenditures, particularly the piling up of a new war economy, with scarcely any let-up, on top of the tremendous financial drain of World War II. It is because of this that the nation's finances are today in a much worse state than at the end of an exhausting war. It is because of this that the maintenance even of the present limited war economy has produced severe financial strains, and has created the threat of a financial crisis, which in turn constitutes a major contributing factor to the threat of a new cyclical crisis.

The financing of the current war preparations has already confronted the American ruling class with very serious difficulties. On the one hand, taxes have reached a point at which the question of further increases has become a highly explosive political issue. On the other hand, the national debt has reached a point at which there are weighty obstacles to further borrowing.

During the past several years, the market for federal securities has been steadily declining. As inflation has grown, the big capitalists have more and more shied away from the purchase of government bonds, the cash value of which remains fixed and on which the interest rates are comparatively low. They have left it to others to be "patriotic" and have instead invested their money in stocks, real estate or commodities, the cash value of which fluctuates with inflation, and which, because of the war economy, have yielded much higher returns.

Consequently, the Treasury Department has been repeatedly compelled to raise its interest rates. The annual rate of interest on 91-day Treasury bills rose from 0.375% in 1945 to 2.125% in the first half of 1953, and on long-term bonds from 2.37% to 2.95%. In April 1953, a new issue of long-term marketable bonds was offered at 3¼%, the highest rate of interest on government securities since 1933. The cost of financing the national debt in fiscal 1953 was 38% higher than in 1946, although the total debt was smaller. But even these measures have failed to inspire the capitalist class with a greater degree of enthusiasm, and the difficulty of selling long-term bonds to non-bank investors has continued to grow.

The sale of E-bonds has met with equally little success. Since the outbreak of the Korean war, except for one brief spurt in sales, redemptions have consistently exceeded purchases, even though the interest rate was increased. In this case the simple fact is that workers suffering from dwindling purchasing power are unable to buy government bonds even if they should want to do so.

Nor have the commercial banks displayed a great eagerness to invest in federal securities. Banks have found a much more profitable use for their funds in loans to private borrowers, which increased from $26.1 billion at the end of 1945 to $68.5 billion by the end of 1953. During the same period, bank investments in federal obligations fell from $90.6 billion to $63.6 billion. Hence even this inflationary source of funds has been much diminished.

A large increase in government borrowing on top of the existing debt, therefore, would necessitate a heavy reliance on the federal reserve banks to underwrite the new loans, a highly inflationary procedure which is about the next thing to the outright printing of more paper money. In addition, interest rates would have to be further increased, which would again add greatly to the burden of interest payments. Thus, continued borrowing on a substantial scale threatens to open the dykes to a new flood of inflation which might, especially in the event of intensified war spending, all too easily "get out of bounds."

Of course, under conditions of more intensive war mobilization, funds available for government borrowing could be increased through such stringent measures as restriction of civilian investment and inventories, compulsory deposit of war profits in banks, drastic curbing of civilian borrowing, and forced savings. For the working people, such measures would lead to sharp reductions in purchasing power and living standards for the sake of increased war preparations. But even these steps could by no means completely exorcise the spectre of inflation, and under conditions approaching total mobilization, coming on top of the present financial situation, they could certainly not suffice to hold off very long its emergence in a serious form.

It is largely such problems as these which have led to the extreme emphasis on a pay-as-you-go policy of financing the current military expenditures. And the intention has been that even a much larger volume of spending should also be financed without recourse to further borrowing. In fact, *Business Week*, in the 1948 article cited above, went so far as to maintain that even in the event of a full-scale world war, it would be necessary "to come as close as it is technically possible to pay for the war as you went along."[31]

But the pay-as-you-go policy has already begun to break down. Since 1948, there has not been one year without a budgetary deficit. In fiscal 1953 the deficit was $9.4 billion, the highest ever incurred outside of periods of all-out war, and for 1954 a comparable deficit was anticipated. Hence, if war preparations continue at their present level, the growth of the federal debt cannot be stemmed unless taxes are considerably increased. With an appreciable rise in military spending, the increase would have to be drastic indeed. Yet, even proposals for mild tax boosts meet with fierce resistance, and not least from the warmongers themselves.

In the event of a new cyclical crisis, the crisis factors in the sphere of production and industry will merge with those in the sphere of finance in a much more disastrous way than in the 1929 crash. This is true not only because of the huge government debt and the high degree of war economy-engendered inflation today (a situation which did not exist in the twenties), but also because these are combined with an enormous volume of private debt, which likewise has been growing by leaps and bounds, as shown later. With the plummeting of private income and government tax receipts, the immense combined load of public and private debt will operate to undermine the entire credit structure of the economy and will serve, far more than in the thirties, as a painful obstacle to the liquidation of the crisis.

The mounting financial difficulties during the past few years have greatly accentuated the differences in the monopolist camp over questions of federal finance. In addition to the sharpening divisions with regard to taxation, which we have already noted, there have been growing conflicts over other issues such as government borrowing and the size of the federal budget, conflicts which have developed within the Eisenhower administration itself.

Does this mean that the dismal financial outlook is of itself likely to exercise a sobering effect on the imperialist warmakers?

Is it likely to induce them to give up their suicidal war schemes, reduce military expenditures and balance the budget? Not in the least. The war program grows out of the relentless striving of the monopolists for maximum profits; hence they will not of their own accord abandon it. Rather, if left to themselves, they will attempt to cope with even the most serious financial crisis by throwing its entire burden onto the backs of the workers, and by subjecting them, as circumstances dictate, to the most oppressive tax burdens and the most ruinous inflation. Nor will they hesitate to use every repressive measure within their power to force the people to submit to such pauperization.

To such oppression, there is no limit other than that imposed by the resistance of the people. But this resistance, to be effective, must take the form of struggles directed against the *cause* of the high taxes and inflation, namely the debilitating mass of armaments expenditures.

In the course of such struggles, it is possible to take advantage of the differences and hesitations which are imposed on the monopolists by their growing difficulties, and which will become ever more acute as the rebuffs and failures suffered by American imperialism abroad continue to multiply. Through such struggles the American people can force a change in the direction of a peacetime economy, which alone holds out real hope of averting ultimate pauperization and ruin.

3

REAL WAGES IN A WAR ECONOMY

Significance of Real Wages

There is a widespread belief that in the United States, in contrast to other countries, the effect of war economy is not to depress but to improve the living standards of the workers, and in particular to raise the level of real wages. Indeed, much has been made of this by the warmongering protagonists of the "American way of life." It is essential, therefore, to examine the actual trend of real wages in wartime and in periods of extensive war preparations, in order to determine whether or not this allegedly exceptional position of the United States has any basis in fact.

Real wages, or wages in relation to prices, are a most important measure of workers' purchasing power. However, they are only a partial yardstick. For one thing, they generally describe the status only of those workers who are employed, and hence do not take into account the ravaging effects of unemployment. Nor do they show the destructive effects of discrimination and segregation, which force the Negro worker especially to pay sky-high prices for inferior goods and the most fantastic rents for the most wretched housing, and thus render his purchasing power considerably less than that of a white worker receiving the same money wages.

In addition, there are certain factors which become especially pronounced in wartime. Chief among these are greater food requirements as a result of longer hours of work and speedup, increased living costs arising from the uprooting and shifting around of workers and their families, the wartime deterioration in quality of consumer goods with no corresponding drop in prices, and the growth of black markets in the necessities of life. To a considerable extent, these factors can be measured or estimated, and their effects included in computations of real wages. To that extent, their complete omission in official cost-of-living statistics represents a deliberate distortion. But they are only partially subject to measurement; hence real wage statistics in wartime must increasingly overstate the actual level of purchasing power.

There are also certain wartime factors, no less important, which cannot be measured numerically at all. Among them are the worries, heartaches and troubles attending the splitting up of families, the physical and emotional effects of the wretched living conditions forced on many war workers, the debilitating effects of endless hours of work, increase of industrial accidents, and, above all, the casualties and horrors of war itself.

Despite these limitations, real wages remain the most important single gauge of living standards. This importance is attested to by the exceptional amount of manipulation and distortion to which cost-of-living statistics are subjected by government agencies. Such doctored statistics are useful to the capitalist class as a device for holding wages down in periods of rising prices, and especially as a basis for freezing wages in periods of large-scale war production. In fact, it was for the purpose of instituting wage freezes during World War I that the shamelessly rigged "consumers' price index" was originally devised by the Bureau of Labor Statistics (BLS).[1] Today this index is used as the basis of the escalator clauses which help to guarantee a declining standard of living for the nearly three million workers covered by them.

Trend of Real Wages in Wartime

In a war economy, as we have seen, prices and taxes rise rapidly. Under such circumstances, wages invariably lag behind, and only some time later do they begin to catch up even partially. Hence the effect of war economy is to depress real wages.

True, in certain key industries, because of labor shortages, wage rates may rise rapidly. There is also some increase in the over-all average of wages as a result of the shifting of large numbers of workers from lower-paying occupations to jobs in higher-paying war industries. In addition, earnings may be enlarged through overtime and steady work. These factors tend to raise the level of real wages; however, we shall find that they are more than offset by the depressing effects of inflation and war taxes, and that, despite possible exceptions in individual industries, the general trend of real wage rates in wartime, and usually of real gross earnings as well, is downward.

In the course of World War I, it is generally acknowledged, real wages in all European countries declined.[2] In Britain, the index of real wages (allowing for fluctuations in unemployment), as estimated by Layton and Crowther, fell from 169 in 1913 (1850 = 100) to a low of 141 in 1917, after which it again rose, reaching a peak of 202 in 1920.[3] A general downtrend in the real wages of European workers occurred also in World War II.[4]

But what of the United States? Has it been an exception to this pattern? There is no doubt that during both world wars the American workers were much better off than the workers in other countries, which were hit much harder by these conflicts. In some ways—increased employment, better paying jobs in war industries, steady work and overtime—they were considerably better off than in the prewar depression periods. But the real facts, in so far as these can be ascertained, show that the fundamental pattern in this country is no different than in any other capitalist country.

Estimates of real wages during World War I are both numerous and conflicting. On the one hand, on the basis of the figures of the Bureau of Labor Statistics, real weekly earnings show a virtually uninterrupted increase throughout the war period, exceeding the 1914 level by about 17% in 1918 and by about 20% in 1920. On the other hand, in his elaborate study of real wages in the United States, Douglas gives another picture, as shown in Table II.

TABLE II

INDEXES OF AVERAGE REAL HOURLY, FULL-TIME WEEKLY, AND ANNUAL WAGES IN MANUFACTURING (1914 = 100)

	1916	*1918*	*1920*
Avg. real hourly wages	105	102	111
Avg. full-time real weekly wages	104	99	103
Avg. real annual earnings	105	108	114

SOURCE: Paul H. Douglas, *Real Wages in the United States, 1898-1926,* Boston, 1930, pp. 111, 130, 239.

In this table, real hourly and weekly wage rates in 1918 show little or no increase over 1914; only in the postwar period is there any appreciable rise. Moreover, while they increase somewhat between 1914 and 1916, in the years of actual American participation in the war, as compared to 1916, they show a definite decline. Only in real annual earnings is there a consistent rise, which is evidently due to more steady employment throughout the year, together with some overtime work, in a number of industries.

These figures bear out the conclusion already reached by Douglas some years before, namely, "All the evidence seems to indicate that at the termination of the Great War the return in commodities which the American workman received for an equal length of time worked (one hour) was from 10% to 20% less than it was in the decade 1890-99 and from 7% to 17% less than it was before the sharp upward turn of prices in 1916."[5]

Therefore, if we discount the BLS figures, all indications are that during the most intensive period of the war real wage rates fell, and that whatever rise may have occurred in gross real earnings was due entirely to steadier work and overtime.

Real Wages in World War II

In the United States, during the second world war, weekly wages in manufacturing nearly doubled, rising from $23.86 in 1939 to a peak of $46.08 in 1944. In terms of the BLS consumers' price index, the 1944 wages expressed in 1939 dollars amounted to $36.41. This represents an increase in real weekly earnings of fully 52%, a truly phenomenal rise for any five-year period, whether in peace or in war—that is, if genuine.

These exaggerated statistics were utilized during the war to justify the notorious Little Steel Formula, which limited increases in hourly wages to 15% above the level of January 1941. The argument offered for such a limitation was that it conformed to the increase in living costs, as shown by the BLS index.

This fraud was exposed in a joint CIO-AFL study published in 1944.[6] The study showed that while hourly wage rates had risen 22% above the January 1941 level, living costs had grown, not by merely 22.8% as the BLS contended, but by *more than 45%.*

More recently, the CIO-AFL analysis has been carried further by the United Electrical, Radio and Machine Workers of America, which has compiled an index giving a far more realistic picture of the actual living costs of the average worker than presented by the BLS index.[7] According to the UE cost-of-living index, from 1939 to 1945 living costs jumped 81.3%, or *more than two and two-thirds times the increase reported by the BLS.*[*]

The difference in real wages is equally striking, as Table III shows. In sharp contrast to the 52% increase obtained on the basis of the BLS index, real weekly earnings show a maximum rise of only 11% by 1944, and most of this increase disappeared in 1945. Even more important, *real hourly wage rates show an uninterrupted decline, and in 1945 were fully 16% lower than in 1939.* Hence the war-time rise in real weekly earnings was due entirely to long hours of overtime, which is shown also by the fact that between 1939 and 1945, average hours of work per week in manufacturing rose nearly 20%.

[*] The main shortcomings disclosed in the BLS index are: 1. it is based not on a simple averaging of prices and other objective measurements, but on a host of complex, highly subjective judgments; 2. it fails to measure hidden forms of price increases, such as quality deterioration; 3. it completely ignores direct taxes, which have increased tremendously since 1939; 4. it does not reflect actual buying patterns in working-class families, but gives excessive weight to patterns characteristic of higher-income groups; and 5. it takes no account of special increases in living costs of Negro wage earners arising from discrimination and segregation. Both the 1944 CIO-AFL study and the more recent UE analysis undertake, along similar lines, to take these factors into account.

TABLE III

INDEXES OF REAL WAGES IN MANUFACTURING, 1939-52 (1939 = 100)*

Year	*Hourly rates, exclusive of overtime*	*Gross weekly wages*	*Average annual earnings***
1939	100	100	100
1940	. . .	102	105
1941	96	107	117
1942	91	109	126
1943	87	111	140
1944	86	111	132
1945	84	102	122
1946	87	96	111
1947	86	95	111
1948	89	97	113
1949	94	100	114
1950	93	103	118
1950 (1st qu.)	95	102	. . .
1952 (July)	90	95	. . .

* Computed in terms of the UE cost-of-living index.
** The figures for average annual earnings were obtained by multiplying gross weekly wages for each year by 52, then subtracting a percentage corresponding to the average percentage of the civilian work force unemployed in that year. This allows for fluctuations in unemployment, just as the figures for gross weekly wages allow for variations in the average number of hours worked per week.

SOURCES: *Monthly Labor Review,* September 1952; United Electrical, Radio and Machine Workers of America, *The Facts About High Living Costs,* June 1951, p. 14.

At the same time, average real annual earnings, when we allow for the wartime reduction in unemployment, show a very pronounced increase, rising no less than 40% by 1943 and remaining considerably above the prewar level even in 1945. From this it is evident that the primary source of the economic improvement which the workers experienced during the war was the greatly expanded volume of employment and the availability of steady work the year around, in contrast to the extensive unemployment, short work weeks and frequent layoffs of the prewar years. This, together with overtime work, was sufficient to produce a considerable jump in gross real earnings despite the fall in real wage rates. Furthermore, because of the greater number employed per family, real family income undoubtedly also rose greatly during the war.

Nevertheless, the fact that in terms of basic hourly rates the average worker emerged from the war period worse off than before is of no little importance. It meant that in 1945, even to match his 1939 level of purchasing power, he had to put in substantially more hours per week on his job. This became painfully evident when, after V-J Day, all the overtime vanished and reconversion layoffs began.

Such are the true facts of the case, which the government statistics are designed to conceal. Despite the just character of the war and the strengthening of the forces of democracy and progress, despite the establishment of price controls, and despite important concessions won by organized labor, real wage rates declined. Basically the United States was no exception.

The Nazi "Miracle"

We have dealt so far with the impact produced on real wages by conditions of full-scale warfare. We come next to the question of how real wages are affected by the militarization of the economy in peacetime. In this connection, before proceeding to the present war economy in this country, it will be instructive to take a look at its chief prototype, the Nazi *Wehrwirtschaft.*

For this, it will be recalled, was presented to the world as the economic miracle of miracles. From the lowest depths of the worst crisis in her history, Germany moved with lightning speed into an era of seemingly unmatched prosperity. Production soared to a level one-third higher than that of the twenties. Unemployment vanished, to be replaced by an increasingly acute labor shortage. The problems of markets, of jobs, of capacity production—all were miraculously "solved." And this while countries like the United States still suffered from depression conditions and were unable to achieve even the 1929 level of production.

How did the German workers fare in this Hitlerite utopia? Were they better off? Certainly the chronically unemployed worker who now had a job must have thought so. And undoubtedly, for the time being he was better off; but the improvement was only transitory, for the Nazi war economy ultimately brought about his utter impoverishment and reduced his living standards virtually to the barest level of subsistence.

In the period of 1933-37, when the war economy was in the process of being built up, inflation and rising living costs had already set in, and consequently real wages had also begun to decline. Even according to the official Nazi statistics, during 1932-37 real wage rates fell by 7%. After partially correcting the official cost-of-living index by allowing for taxes and other deductions, Kuczynski found that net real wage rates had actually declined by some 13% below the depression level of 1932. This occurred, moreover, in a period of peacetime economic upsurge, a development which Kuczynski characterized as unique in the entire history of capitalism up to then. At the same time, despite overtime work and the growing concentration of workers in the higher-paid war industries, real weekly earnings had risen only 5% over the 1932 level. Taking into account these and other factors, such as increased intensity of work, Kuczynski reached the conclusion that in 1937 "the average worker received real wages which moved around the lowest level reached during the crisis of 1929-32 and for these wages had to work more intensively and for longer hours."[8]

Such were the blessings derived by the German working class from the Nazi war economy, even in its most "peaceful" stage. By 1938, however, this stage was ended, and the German economy was already on an all-out war basis. Every resource and effort was bent to the building of a war machine for world conquest. All else was sacrificed to this end, exactly as if a state of total war already existed.

To feed this monster war machine, imports of consumer goods, particularly foods, had been drastically cut in favor of war materials. Food shortages had reached an acute stage. Widespread adulteration developed, food consumption decreased, and the incidence of malnutrition and vitamin deficiency diseases grew. *Ersatz* goods and quality deterioration became the rule. And black markets flourished everywhere.

Under such conditions, statistical measurements of real wages obviously lose all meaning. But under such conditions, they are no longer needed to show what happened. Nothing could be plainer than the fact that by 1938 the German workers had been reduced by the war economy to a grim state of poverty and growing hunger, and this long before the beginning of large-scale warfare. Such were the consequences of the Nazi "prosperity" built on guns and tanks.

Living Standards and the Cold War

The period since the end of World War II has been marked by a continued upsurge in prices and living costs, considerably surpassing the rise of the war years. There was a big initial spurt in the immediate postwar period, due chiefly to the scrapping of price controls, but also in part to rising military expenditures. This upward movement of prices was temporarily halted by the economic slump in 1949, but with the invasion of Korea in the following year and the ensuing jump in arms spending, it was resumed.

From June 1950 to the end of 1951, according to BLS figures, wholesale prices rose by about 13% and consumer prices by 11%. Subsequently, as the effects of the shot in the arm of increased military expenditures wore off, the tide of rising prices abated, and wholesale prices began slowly to fall. But living costs continued an irregular upward course, and by August 1953 they were 15% higher than in June 1950.

What effect has this had on real wages and living standards? Nominal wages, of course, continued to rise. Average weekly wages grew to $58.85 in June 1950, and to $71.53 in June 1953. But real wages showed no such increase. Even according to the BLS figures, net spendable weekly earnings (that is, after deduction of social security and income taxes), when expressed in 1939 dollars, were scarcely higher in June 1953 than in 1945.

And from Table III the following things are clear. First, real weekly and annual earnings in 1950 were no higher than in 1945. Second, real hourly wage rates, although they increased somewhat, were in 1950 still 5% below 1939. Third, during the

Korean war (a period marked by a substantial rise in industrial output) both hourly rates and weekly earnings distinctly declined. In mid-1952, according to these figures, they were lower than in 1939; certainly, even at a much more generous estimate, they were not far above the 1939 level. And 1939 was a year in which depression conditions still largely prevailed.

It is significant that real annual earnings, throughout the post-war period, have remained substantially higher than before the war, in other words that the gains resulting from continuous employment have for the most part been retained. It is this, of course, which has been the basis of the relative prosperity kept up since the end of the war by successive injections of arms spending. It is equally significant, however, that there have been no further gains; on the contrary, real annual earnings have remained consistently below the 1945 level. Moreover, there are definite indications that during the Korean war they suffered a palpable decline. Thus, *U.S. News and World Report,* in August 1952, wrote:

> The cut in living standards for families with incomes up to $10,000 a year is painfully real, in many cases. . . .
>
> A factory worker, married, with two children, on an average was being paid at the rate of $3,000 a year in early 1950. He now is making $3,500 a year. On the surface, it appears that this worker is better off than two years ago, by $500 a year.
>
> However . . . the increases in taxes, food costs and other expenses reach $524, or $24 more than the worker's gain in wages. . . .
>
> The Government's figures indicate that, in a typical case, a worker on $3,000 a year in 1950 was falling behind in the race with inflation by approximately $126 a year. Now, despite a $500 raise, he is "going in the hole" by about $150 a year, unless he puts the brake on family spending.[9]

This account unquestionably underestimates both the extent to which wages fall behind prices and the extent to which the average worker goes in the hole. The average wage of $3,500 a year is $666 below the skimpy BLS budget for a minimum standard of health and decency for a family of four, as of October 1951. And the proportion of families which cannot afford even this meager budget was 64% of all families in 1951.[10]

The degradation of living standards is further shown in the decreasing per capita consumption of food which, from 1946 to 1952, dropped nearly 6%. To this must be added the chronic housing crisis and the growing deterioration of housing resulting from more than a decade of war economy, and which, for the Negro people in particular, long ago reached shocking proportions. There is also the curtailment of government services which inevitably accompanies huge military budgets—the drastic trimming of expenditures for housing, schools, health, and social welfare. When all these things are brought into the picture, it is clear that the present war economy has made distinct inroads on the living standards of the American working class.

True, because of expanded employment the American workers have been and still are better off than in 1939. But this very fact makes repetition of the World War II experience impossible. Because the current war economy starts with a high level of employment, it cannot give rise to a new leap in employment and production at all comparable to what occurred during the war. And without such an offset to the underlying decline in real wage rates, it is inevitable that real earnings, no matter how expressed, must sooner or later fall. Hence, it is not at all surprising that during the Korean war there was a drop not only in hourly rates, but in gross real earnings as well.

With any weakening of the props of steady work and overtime, the effects of lower real wage rates must make themselves felt all the more sharply, and the return of extensive unemployment and short work weeks must therefore leave the average worker absolutely worse off than in 1939. The shock of a new depression will be all the more severe also because workers have become accustomed to a relative security of income, on the basis of which they have gone heavily into debt for homes, cars, appliances and other commodities.

Of course, further expansion of the war economy might again provide a momentary offset to the deterioration of real wage rates, but in the long run, as the German example shows, it would only serve to undermine living standards all the more. If rising war expenditures should temporarily prolong the relative degree of prosperity which has existed so far, it would be only at the price of building up still more to an eventual major catastrophe.

There are some ominous parallels between the present situation and the Nazi war economy of the thirties. The reduction of real wage rates to near-depression levels, the decline of real wages in times of economic upsurge, the progressive deterioration of living standards—all these consequences of a "prosperity" based on war preparations are revealing themselves here as they did in Germany. The continued growth of the war economy could only serve to aggravate these developments, and in the end to lead the American workers to disaster, even as happened to the German workers. Hence, if the American people hope to preserve their standard of living, let alone improve it, they must fight against the monopolies and their war plans. Otherwise, the existing living standards would most certainly be wrecked.

The Struggle Against Inflation

Naturally, the working class is compelled to resist the destructive impact of war economy on its purchasing power and living standards, and in particular to struggle against the devastating effects of wartime inflation. Within the framework of the war economy, this is essentially a struggle against the efforts of monopoly capital to saddle the workers with the costs of war preparations. So long as the need for such preparations is accepted, the struggle obviously cannot be directed toward the *elimination* of the inflation to which they give rise. This can be accomplished only by putting an end to the war economy itself.

The chief method by which workers strive to combat the effects of inflation is to fight for wage increases. These, of course, are strenuously resisted by the capitalist class, which contends that inflation is caused by excess purchasing power in the hands of the workers to begin with, and that wage increases only force prices up further and set off an "inflationary spiral." To combat inflation, they insist, it is necessary to *freeze* wages.

As we have already remarked, this is merely a wartime version of the old, long discredited lie that wage increases are the cause of price increases. Plainly, it is sheer nonsense to speak of workers having too much purchasing power in relation to available supplies of goods when 64% of all families do not earn enough to maintain a minimum standard of health and decency, and when they find it increasingly difficult to provide themselves with the bare necessities of life even when these are available in quantities which flood the market. The fight for higher wages is simply an attempt to catch up, at least partially, with price increases that have already taken place and which threaten the workers with increasing impoverishment and hardship.

Wage increases do not enlarge the total amount of purchasing power but *only alter its distribution.* The higher wages come ultimately out of the huge war profits, and this is precisely why they are so bitterly opposed. Capitalists cannot raise prices at will; not even the most powerful monopolies can do so. They can charge no more than the highest price which the market, in the given circumstances, will bear. And this they do at all times, regardless of how much or how little they pay the workers they employ. In the sellers' market created by war economy, the prices which the market will bear may be very high, although they are neither arbitrary nor unlimited. Under these circumstances, wage increases are only used by the monopolies as a convenient excuse for demanding price increases which would be demanded in any case. But it is clear that in the end, the higher the wages they must pay, the lower are their profits.

The fight for higher wages in wartime or under conditions of growing war preparations is simply a part of the never-ending struggle which the workers are compelled to wage under all conditions against their growing impoverishment and without which, as Marx states, "they would be degraded to one level mass of broken down wretches past salvation." This struggle is especially important in the conditions of a war economy, from which the big capitalists derive enormous superprofits through increased exploitation of the workers. The fight for increased wages is therefore absolutely indispensable in the struggle to offset the effects of inflation. Without the wage increases the degree of inflation would be no less, but the gap between prices and wages, and the impoverishment of the workers, would be all the greater.

A second phase of the struggle to limit the effects of inflation is the fight for price controls, which are likewise vigorously opposed by the capitalists, since they tend to cut into profits.

That price controls can effectively hold prices down is shown by the experiences of World War II. From the last month of peace to V-J Day, retail prices increased only 31%, in contrast to a rise of 62% by Armistice Day in the first world war. Wholesale prices rose only 41%, as against 102% in World War I. In the period from May 1943 to V-J Day, when full controls, reinforced by producers' subsidies, were in effect, the total rise in wholesale prices amounted to 2%, and in retail prices to 3%; and rents, from August 1939 to the end of 1946, increased by only 4%.[11] Clearly, had these controls not been destroyed, the tremendous skyrocketing of prices after the end of the war would not have occurred.

However, these controls, which had to be won and maintained in unceasing struggle against the monopolists, were far from perfect. They did not prevent substantial increases in the prices of many types of civilian goods, nor did they prevent widespread deterioration in quality and the extensive growth of black markets. Furthermore, monopoly capital was able through the Little Steel Formula to hold wages down to a much greater degree than prices.

Nevertheless, it must be emphasized that the controls did substantially reduce the burden borne by the workers. By the same token, the absence of anything remotely resembling genuine price controls in the present war economy has greatly added to their burden.

But no price controls, no matter how perfect, can fully eliminate rising prices and declining living standards in time of war. For these grow out of the war economy itself, maintenance of which demands sacrifices. In World War II, a just war supported by the overwhelming majority, the workers accepted the need for sacrifice, and it was on this basis that they fought for price controls and the rationing of scarce goods as a means of preventing the entire burden of sacrifice from being thrown on them.

Today it is also vital to fight for price controls in order to curb profiteering and to defend the workers' living standards. But today the great majority of workers, even if they swallow the Big Lie that a huge armaments program is necessary, are clearly not prepared to sacrifice for Wall Street's aggressive wars. On the contrary, they have displayed a firm determination to defeat every inroad on their wages and working conditions. If these struggles are to be successful, however, there must be no illusions that it is possible to support the war economy and yet avoid sacrifices, and particularly that such measures as price controls can do away with inflation. If they wish to defeat the efforts of the monopolists to squeeze maximum profits out of their hides through preparations for wars of conquest, and to prevent the complete destruction of their living standards on the spurious grounds of "patriotism" and the need to make sacrifices, the workers must obviously direct their attack against the war economy as such, and must demand an end to the destructive burden of armaments expenditures.

4

WARTIME EMPLOYMENT AND WORKING CONDITIONS

War Economy and Full Employment

Since the close of the first world war, every capitalist country has been plagued with chronic mass unemployment, with the existence of a huge reserve army of unemployed workers not fully absorbed even in peak periods of peacetime booms.

To this pattern there has been but one exception. Only in times of war have the armies of unemployed been absorbed and a condition of full employment temporarily restored. In fact, present-day capitalism knows of no other means of eliminating unemployment. It has become a commonplace, says Beveridge, "that the only sovereign remedy yet discovered by democracies for unemployment is total war."[1]

Undoubtedly, one of the most striking features of modern war is the enormous demand for civilian manpower which it creates. Under conditions of full-scale war production, with the drafting of a large part of the labor force into the armed services, and with the prodigious mushrooming of war industries, there develops an insatiable demand for workers.

Unemployment virtually disappears, and a frantic quest for additional workers unfolds everywhere. The maimed and disabled are put to work. Older workers are brought back from their "retirement" to resume their places in the factories. Women are employed in large numbers in jobs previously open only to men. Negro workers, as well as Mexicans, Puerto Ricans and other oppressed minorities, find jobs in plants and factories from which they had hitherto been completely excluded. All barriers apparently vanish. Seemingly, there are jobs for all, regardless of age, sex, skin color or nationality.

It is this phenomenon, as we have seen, which has been chiefly responsible for the relative prosperity induced by war economy, and which is primarily responsible for the persistent illusion in the minds of American workers that war economy is a road to good times. "At least," thinks the average worker, "it means the difference between a job and no job."

We need not dwell here on the bloodshed and destruction at the cost of which the full employment of World War II was obtained, nor on the infinitely greater cost of the full employment which might be secured today through an atomic bloodbath. The important thing, aside from the sheer barbarism of proposing that one part of humanity must be killed off as the necessary condition for the economic welfare of the survivors, is that in reality war economy offers no genuine solution for unemployment. The "full employment" of war economy is actually a highly unstable and abnormal condition, and moreover one which in the end can be maintained through nothing less than total mobilization and all-out war.

The launching of a large-scale armaments program does not immediately give rise to labor shortages and the elimination of unemployment. In fact, its initial effect may well be a temporary *increase* in unemployment, as growing numbers of factories shut down in order to convert to war production while simultaneously many civilian goods industries begin to curtail production. The rise in unemployment resulting from this initial disruption of industrial operations may be rather substantial, as it was in this country during the period of conversion to all-out war production in World War II.

Much more important than this, however, is the fact that as the war economy continues to unfold, unemployment still does not disappear for a considerable length of time. As a matter of fact, it is only after war production has begun to approach all-out proportions, and only after large numbers have been drafted for military service, that labor shortages throughout industry reach the extremity which leads to the employment of practically everyone willing and able to work.

In Nazi Germany, unemployment did not drop greatly in the initial stages of war preparations. Actually, it was not until 1937 that it fell below the level of 1928, the most prosperous prewar year.[2] Similarly, in the United States unemployment fell slowly after 1939. In 1941, there were still more than 5.5 million officially recorded as unemployed. Only after this country had entered the war, and only after total mobilization was well under way, did unemployment, at the end of 1942, drop below the 1929 level.

Moreover, the peak level of employment was reached some time before the end of the war, with factory employment reaching its maximum in November 1943. Unemployment reached its lowest point in 1944, and by 1945 had again begun to climb. Thus, as soon as the demands of the war began to ease up even a little, this was immediately reflected in a drop in production and employment.

It is evident, therefore, that the elimination of unemployment is characteristic only of periods of peak war activity and military production. With anything less, a substantial residue of unemployment remains even when military expenditures are at a relatively high level.

The wartime drop in unemployment, it should be noted, by no means represented a corresponding rise in industrial employment, since it was due in very large part to the absorption of men and women into the armed forces and the vastly expanded federal government machinery. In 1944, the number of individuals in these two categories totaled 14.8 million, as against 1.2 million in 1939. If we allow for these in addition to the number of unemployed, only some 77% of the total labor force was otherwise gainfully employed in 1944, compared to nearly 81% in 1939.[3]

In the second place, war economy does not produce a uniform increase in employment in different industries. On the contrary, it gives rise to an extremely one-sided expansion of production, with rising employment and growing labor shortages in the mushrooming war industries, side by side with shrinking employment in the industries producing consumer goods. During World War II, most of the increase in employment was in manufacturing, in which the number of production workers rose from 8.2 million in 1939 to a peak of 15 million in 1943. And practically all of this was concentrated in the durable goods industries, where employment in the same period rose from 3.9 million to 9.6 million, while in the non-durable goods industries it rose only from 4.3 to 5.4 million. The most phenomenal increases in employment took place in industries which play a very small role in peacetime, industries such as ordnance, shipbuilding and aircraft which expanded to mammoth proportions almost overnight and dwindled just as quickly at the end of the war.

The immediate effect of the war economy was therefore to create a condition of widespread chaos, of areas of desperate labor shortage side by side with areas suffering from labor surpluses and mass unemployment, and of great upheavals and dislocations necessitating the uprooting of large numbers of workers and their families.

The plunge into total mobilization gave rise, on the one hand, to a host of "boom towns"—sites of war production plants—characterized by acute labor shortages and heavy influxes of workers with all the attendant problems. Simultaneously, there appeared a rash of "ghost towns"—towns whose industries, confined to the production of civilian goods, were forced by scarcity of raw materials to curtail operations or close down altogether. This resulted in mass unemployment due to "priority layoffs," which was only partially alleviated by migration of workers. These "ghost towns," numbering well over 600 in 1942, were by no means confined to small, one-factory towns but included, among others, no less a center of population than New York, in which there were still over 250,000 unemployed at the end of 1942. By contrast, Detroit had already absorbed an influx equal to the total population of Milwaukee and still suffered from a severe labor shortage.[4]

In the characteristic manner of capitalism, this state of chaos was left chiefly to resolve itself. As war production approached all-out levels, and as the demand for workers in war plants became ever more frantic, growing numbers of workers and their families migrated as best they could to the centers of war production, there to shift for themselves in conditions of extreme shortages of housing, schools, health facilities and other essential needs. The situation in a typical boom town—Mobile, Alabama—is described by Corson as follows:

> Around the city is a ring of unhealthy-looking tent and trailer camps, with no sewage, no water system, and only crude toilets. Within the city, despite the willingness of many native families to take "war guests" into their homes, workers with families can find practically no place to live. They look for tents, trailers, or shacks outside the city. Single men are more fortunate; they can choose between the extravagantly priced private rooms, "hot beds," nightmarish "boardinghouses," or their own car, if it still holds together. In the face of these conditions a score of the city's doctors have gone into the army.[5]

If this was the situation in general, one can well imagine the appalling conditions to which the already overcrowded Negro community was subjected in this typical Jim-Crow southern city!

It was such living conditions as these which, for millions of American workers, were associated with the wartime "full employment" boom. Although there is no doubt that far more could have been done to alleviate them than was actually attempted, such conditions were not fortuitous, but an inevitable consequence of the one-sided, chaotic character of war production and employment. And when, at the end of the war, demobilization and reconversion to peacetime production took place, the same confused reshuffling of masses of human beings was repeated, this time in reverse.

Clearly, the full employment produced by war mobilization is, to say the least, highly abnormal in character. Therefore, to regard war economy as a source of permanent full employment is nothing more than folly bred of desperation. Few things are more symptomatic of the advanced stage of decay of capitalism than the fact that the capitalist class has no other cure than this to offer for the plague of mass unemployment.

Instability of Employment

Since the end of World War II, employment in the United States has shown a marked growth, those listed by the Census as "gainfully employed" rising from 55.3 million in 1946 to 62 million in 1953. At the same time, unemployment has remained far below prewar levels. It may seem, therefore, as the proponents of big armaments budgets assert, that the growing volume of military expenditures has indeed served to guarantee a high level of employment up to now, and that there is no reason why it cannot be counted on to do so in the future.

The facts show, however, that the present war economy cannot provide a stable source of continuing full employment. In the first place, even the official statistics, which considerably understate the extent of unemployment, show that throughout the postwar period it has been well above wartime levels. Thus, in 1952 the number of unemployed comprised 2.7% of the total civilian work force, compared to 1.9% in 1945.

But these figures do not take into account the number of partially unemployed, that is, of those unable to secure a full week's work at all times. During the war this category practically vanished, but in the postwar period it again grew to substantial proportions. In May 1953, as Table IV shows, nearly 17% of the civilian labor force was totally or partially unemployed.

There is also a considerable amount of hidden unemployment, in the form of large numbers of individuals arbitrarily excluded

TABLE IV

CIVILIAN EMPLOYMENT, WEEK OF MAY 3-9, 1953

	Number (thousands)	*Per cent*
Total civilian labor force	62,964	100.0
Employed 35 hours or more	50,334	80.0
Employed 15-34 hours	7,186	11.4
Employed 1-14 hours	2,156	3.4
Unemployed	1,306	2.1
With job, but not at work*	1,982	3.1

* Chiefly those not working because of illness, bad weather, vacations, etc., but includes also some 275,000 laid off and expecting to return to work in 30 days or unemployed but waiting to report to new jobs within 30 days.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports,* Series P-57, No. 135, June 5, 1953.

from the labor force. In 1944, the total labor force was estimated at 66 million; by 1946, it was down to 61 million. Included in this difference are big numbers of women, older workers and others for whom, once the war ended, there was no longer any demand, although they were still willing and able to work. These the Census Bureau statisticians disposed of by simply classifying them as no longer in the labor market. If these groups are included, it is evident that the level of unemployment has been considerably higher than that shown by the official figures.

Clearly, such a state of affairs can scarcely be termed a condition of full employment.

A second feature of the postwar employment picture is its extreme instability, with every drop in industrial output bringing in its wake an alarming rise in the number of unemployed. In the 1949 slump, when industrial production declined 6% in a period of six months, unemployment more than doubled. In the last half of 1953, with an equivalent drop in production, the process was repeated. Today, there is an almost universal fear that any tapering off of the armaments program with a consequent drop in production will set off a far more disastrous rise in unemployment. The growing war economy has therefore succeeded, at most, in producing a highly unstable level of employment, easily upset, and capable of being maintained, if at all, only through ever greater increases in military spending.

Third, the postwar pattern of employment is marked by a high degree of unevenness, growing out of the one-sided character of war production. Mounting employment in the war goods industries has been accompanied by declining employment in a number of civilian goods industries. This is indicated by the fact that while the number of production workers in the durable goods industries increased by roughly 900,000 between 1946 and 1952, the number in the non-durable goods industries decreased by 300,000 in the same period.

This unevenness has been reflected geographically in the reemergence of the familiar wartime pattern of depressed areas side by side with areas of labor shortage, this time in a persistent form. In September 1953, the BLS reported 42 areas, including 18 large cities, as having a "substantial labor surplus"—that is, with 6% or more of the labor force unemployed. In addition, there were 85 other major areas, of a total of 182 covered by the survey, with a "moderate labor surplus." Only 3 major areas were reported as having a labor shortage.[6] By February 1954, the number of major depressed areas had grown to 22, and included such key auto manufacturing centers as Detroit and Toledo.

In World War II, as we have seen, total mobilization led ultimately to the absorption, in one way or another, of the unemployed workers in such depressed areas. But in the present partial war economy, military production cannot absorb a sufficient number of workers to overcome this situation. Compared to World War II, the growth in employment in characteristic war industries has been very small. For example, between 1939 and 1943 the number employed in the manufacture of ordnance and accessories rose from 9,000 to 427,000; on the other hand, between June 1950 and December 1952, the number increased only from 18,900 to 65,000. The same is true of shipbuilding, aircraft and other war industries. Hence the depressed areas have persisted stubbornly.

Finally, the impact of the war economy on employment is also *proportionately* less than in World War II. First of all, as has already been pointed out, since the present arms drive starts not from depression conditions but from a high level of economic activity and employment, it cannot have the same effect in relation to the volume of military expenditures as did the wartime mobilization. Secondly, the past several years have witnessed a marked increase of rationalization and speedup in the war industries, so that a given amount of military production requires a much smaller number of workers than during the last war, as well as a much smaller part of those laid off in civilian goods industries. Thirdly, in today's "peacetime" war economy the main emphasis is not on turning out maximum quantities of war goods in the shortest possible time, but on the construction of war plants and preparations for some future eventuality. This was expressed by John D. Small, Chairman of the Munitions Board, in a 1951 speech: "We do not want to spend our resources making a lot of military 'hardware' that is likely to stand on the shelf and become obsolete. We want to spend our resources establishing and maintaining up-to-date production lines which can be shifted to high-speed production of the latest equipment in the shortest possible time when and if it becomes necessary."[7] Such a program requires a relatively limited number of mass production workers.

In reality, this approach does not arise from any squeamishness about piling up obsolescent war materials. Neither the military nor big business has any basic objection to manufacturing as much as possible and, if necessary, even dumping it into the ocean to make room for still more. It arises rather from the striving of the monopolists to have their cake and eat it—to extract maximum profits from *both* the war and civilian goods sectors of the economy, which they can best do by confining war preparations to building new plants and carrying on expensive pilot operations while holding on to as much civilian goods production as possible. This served to impede the transition to a war economy in World War II. Today, in the absence of any really urgent need for war goods, it becomes an overriding consideration.

Hence, with the arms program in its present form, there is a definite ceiling on employment in war production, and it cannot compensate for the ultimate decline in employment in the civilian goods industries. Initially, production was curtailed in many of these industries because of shortages of raw materials, but this is no longer the case. As the war economy eats more and more into mass purchasing power, civilian goods output tends increasingly to decline because of a shortage of *customers.*

This was the main cause of the wave of layoffs and unemployment which occurred in 1951 in textiles, clothing, shoe and leather, furniture, lumber, shipping, coal mining, electrical equipment, auto, and a number of other industries. Eventually, as war production increased, in most cases the wave of unemployment abated, although in such industries as coal mining and textile there was no reduction. Since mid-1953, however, again because of shrinking consumer demand, there has been a new rise in unemployment in a number of industries, becoming particularly marked in farm equipment, auto, electrical, and part of the steel industry. In January 1954, official estimates placed the number of unemployed at over 3 million; and various trade union estimates as high as 4 million.

These developments are indicative of the essentially shaky and unstable character of war economy-induced employment. Three years of war in Korea and the largest "peacetime" military budget in our history have not sufficed to eliminate the constant threat of joblessness, even with more than 3.5 million men and women in the armed forces and well over 2 million more on the federal government payroll. The present picture is one of persistent areas of mass unemployment, of general uncertainty and the ever-present threat of new waves of mass layoffs. And as the war goods industries become increasingly unable to absorb those made idle by the growing decline in civilian goods production, the situation must inevitably grow worse.

To this, monopoly capital can hold out only one "solution"—to go on endlessly expanding military production to all-out levels and to thrust the nation into a new world war. Either mass unemployment and depression or the frightfulness of an atomic war; these are the alternatives to which reliance on war economy as an answer to unemployment leads.

In the thirties, American labor fought against such false conceptions. And in 1936, Franklin D. Roosevelt, speaking before the Inter-American Peace Conference in Buenos Aires, said: "Vast armaments are rising . . . the work of creating them employs men and women by the millions. . . . Such employment is false employment . . . it builds no permanent structures and creates no consumers' goods for the maintenance of a lasting prosperity. We know that the nations guilty of these follies inevitably face the day either when their weapons of destruction must be used against their neighbors or when an unsound economy like a house of cards will fall apart."[8]

How well these words apply to the suicidal course of the American ruling class today!

Wartime Employment of Women

Modern war production is marked by greatly increased employment of women in industry. This was a prominent feature of World War I, and to a far greater degree of World War II, when a tremendous influx of women workers into the war factories occurred. From 1940 to 1944, the number of employed women rose from 12.0 million to 18.6 million, or well over one-third. Large numbers of women gained access to a variety of jobs formerly closed to them. And substantial numbers of Negro women, for the first time, found jobs in industry.

To be sure, these developments represented a not inconsiderable advance in the struggle for economic equality for women. But it must also be recognized that the gains were distinctly limited, and were confined within the basic pattern of economic discrimination against women characteristic of capitalist society.

First of all, the greatest concentration of women occurred in munitions, aircraft and other war industries destined to fold up at the close of hostilities. Second, they continued to be subjected to the most outrageous wage discrimination; in fact, many employers took advantage of the situation to hire women at considerably lower wage rates than those they had paid to men for the same work. And, third, to make certain they would be the first to go when employment fell off, there developed the widespread practice of separate seniority lists for women workers. And all too often, these practices were carried on with not only the agreement but the active connivance of labor unions.

It is not surprising, therefore, that at the end of the war women were laid off in large numbers and replaced by men. In fact, while total employment rose from 52.8 million in 1945 to 55.3 million in 1946, the number of employed women simultaneously fell from 18.6 to 16.3 million. And the Census Bureau assisted in covering up the elimination of women from industry by arbitrarily classifying big numbers as no longer in the labor force. Between 1945 and 1946, the officially estimated female labor force declined by more than 2 million.

The present war economy has brought with it a renewed increase in employment of women in industry, though of course nothing approaching the tremendous upsurge of World War II. In large measure, the present increase is a reflection of the intensified pressure of women for jobs because of the growing shrinkage of purchasing power and inability of workers' families to make ends meet. This is evident in the changed composition of the female labor force in the last decade. In 1940, according to Census figures, 36% of the women in the labor force were married, and in 1950 no less than 52%. According to the BLS, between 1940 and 1950 the proportion of white couples with the wife in the labor force grew from 11% to 22%, and the corresponding proportion of Negro couples from 24% to 37%.[9]

But women workers today face much more difficult problems than in the World War II years. Jobs are not nearly as plentiful, and discrimination is more severe. Moreover, there has been no lessening of the gap in pay between men and women, averaging fully 40%, since 1940. Thus, in December 1951, weekly earnings of women factory workers in New York State were still 39% lower than those of men.[10] The evil of the double seniority list is still widespread. And whereas, during World War II, child care centers were provided at federal expense under the Lanham Act, today no such provisions for children of working mothers exist.

If the present employment situation generally is a precarious one, that of women is doubly so. According to the official figures, in July 1953 they comprised about 30% of the total labor force and about the same percentage of those listed as totally unemployed. But the proportion of women among the unemployed is actually much greater than these figures indicate, because of the official practice of counting an exaggerated proportion of women who lose their jobs as having left the labor force. All things considered, therefore, it is clear that any sharp economic decline, with its aftermath of mass lay-offs, would be especially disastrous for women workers.

Obviously, the future for women in American industry lies not in looking to war economy to provide ephemeral jobs in war production, but rather in waging a determined struggle against discrimination in jobs and pay, and for adequate protective legislation and child care facilities. Today it lies in waging a fight for a peacetime economy as the essential basis for combatting unemployment and crisis.

Hours of Work in Wartime

It has been noted in an earlier chapter that once relatively full employment is achieved, the possibilities of further expansion in production are sharply limited. As a matter of fact, the only ways in which additional increases in output can then be obtained are through longer hours of work or through increased productivity. In time of war, the most obvious immediate measure which suggests itself is, of course, the lengthening of the work week. And in a total war economy the necessities of all-out war production sooner or later drive the length of the work week up to, and even beyond, the limits of endurance of the worker.

Nowhere is this more strikingly illustrated than in the war economy of Nazi Germany where, with the destruction of the labor unions and the complete subjection of the working class to the employers, both hours and intensity of labor were swiftly pushed to the utmost limit of human endurance.

In many war industries, by 1939, 11-, 12- and 14-hour days, seven days a week, had become the rule, and frequently employers were permitted to introduce work weeks of even unlimited length, as they saw fit. Along with this, the German workers were subjected to the most merciless, back-breaking speedup in all history. The inevitable end result was the complete physical and mental exhaustion of the workers, and a reduction in their output despite the extra hours of toil.[11]

During World War II, a considerable lengthening of the work week took place also in the United States. The average work week in manufacturing rose to a peak of 45.5 hours in 1944, and in a number of war industries it was much higher. A 48-hour minimum scheduled work week for key war production areas was established by executive order, and by 1944 it had been introduced in 135 labor market areas.[12] And in many war industries workers found themselves putting in as much as 70 hours a week over fairly long periods of time.

But here, too, increased output through longer hours proved to be definitely limited, and was accomplished only at the price of continuously decreasing efficiency and a marked growth of absenteeism and accidents. The industrial accident rate rose from less than 15 injuries per million man hours worked in 1939 to nearly 20 in 1946—a jump of about one-third.[13] In many instances, it was found that the number of hours had been increased to a point where total output was actually diminished, and the work day had to be reduced substantially.

In World War II, the conditions of the American workers were obviously far better than those of the German workers. The American working class had retained its democratic rights. It was fighting in a just war against fascist aggression, spearheaded by a powerful labor movement. It was therefore able to protect its working conditions with considerable effectiveness.

In particular, the workers were able to preserve the forty-hour week intact, in the face of a concerted attack on it by big business. The big monopolies made incessant demands for the suspension of the Fair Labor Standards Act for the duration, asserting that the large amounts of premium overtime pay were causing inflation, and that the forty-hour week had originally been intended only as a measure for spreading employment in times of depression. These spurious arguments were rejected, however, and the Fair Labor Standards Act remained fully in force. Nevertheless, some concessions were made to big business pressure, notably Roosevelt's Executive Order 9240, which prohibited the payment of premium rates for Saturday and Sunday work as such, regardless of contract provisions, and allowed it only if these were the sixth and seventh consecutive work days.

Today, the situation confronting the American working class is much different than in World War II. In the first half of 1953, the average number of hours worked per week in manufacturing was only 40.9, as compared to 40.4 in 1946. The main problem, therefore, has not been excessive working hours. Rather, in a number of industries, it has been short weeks and layoffs.

A total war economy, however, would create an entirely different set of conditions. Should such a situation materialize, the plans of big business call for the institution of virtually unlimited hours of work, and for the wiping out of all existing safeguards of wages and working conditions. Above all, they call for the abolition of the forty-hour week, which is a major obstacle to the unlimited exploitation of the workers.

In the past several years, there have been repeated proposals by the monopolies to lengthen the standard work week to 48 hours. One of the most vociferous advocates of such a measure has been the present Secretary of Defense, Charles E. Wilson. With the continued expansion of war production, these sporadic moves would unquestionably develop into an all-out campaign against all limitations on the length of the work week.

The Wall Street war program, therefore, confronts the working class with the threat of being subjected to the same interminable hours of work at low wages and the same total exhaustion as the Hitler regime inflicted on the German workers.

Productivity and Speedup

In addition to the lengthening of working hours in wartime, heightened output is sought also through increased productivity which, under capitalism, is inseparable from increased speedup. The striving of the capitalist class to enlarge its surplus value by increasing the intensity of labor is, of course, not confined to periods of war, but is a continuous, unending process, in which every technological advance serves as another excuse for demanding a faster tempo of work, and against which the working class is compelled to wage a ceaseless battle. Historically, capitalists have increasingly resorted to speedup as a means of offsetting the shortening of the work week. Wartime is peculiar chiefly in that it combines the intensification of speedup with the lengthening of the work week.

While war economy gives rise to a tremendously heightened pressure for greater productivity, it simultaneously necessitates extensive reorganization and dislocation of production, and brings into play a host of factors whose effect is to reduce productivity. Chief among these are the following:

1. Decline or cessation of production during periods of conversion to war production;

2. Lessened efficiency of workers resulting from personal hardships entailed in uprooting and transferring them to essential war industries;

3. Dilution of the labor force by the removal of large numbers of experienced workers and their replacement with new, inexperienced and untrained workers;

4. Utilization of obsolete, inefficient plant and equipment, exploitation of low-grade or hardly accessible mineral deposits;

5. Pushing equipment past its normal capacity, subjecting machinery to wear and tear without adequate replacement;

6. Use of substitutes, especially in civilian goods, even where they render production far more time-consuming than with the original materials; and

7. Cost-plus contracts and other devices which put a premium on *increasing* costs and encourage the hoarding of labor.

The extent to which any of these factors operates in any given case may vary enormously. In some industries there may even be large increases in output per man hour. Nevertheless, the over-all tendency in a war economy is in the long run to depress productivity.

In World War I, this was a general occurrence. In Germany, output per worker per shift fell off considerably in coal mining, railroad, and a number of other leading industries. In Britain there were similar, though less pronounced, decreases in productivity in coal mining and manufacturing. The United States was no exception. "This country too experienced a drop in productivity in the field of manufacturing during the years 1917 and 1918. After having risen during the period of neutrality (1914 to 1916) from 108 to 119, the index of output per person in manufacturing industries (1899 = 100) dropped to 110 in 1917 and 105 in 1918."[14]

In the Nazi war economy, at first productivity increased in the war industries, while it fell in the civilian goods industries. Eventually, however, the trend in the war industries was reversed, and by 1939 declining productivity had become universal.[15]

The trend in productivity in the United States during World War II appears, at first glance, to be exceptional. Annual output per worker rose consistently, and from 1939 to 1945 increased by more than 31%, a rate of increase substantially greater than that of the prewar years.[16] However, figures on *hourly* output per worker, though they vary widely, for the most part show no such increase. BLS estimates of production per man hour in a number of individual industries show, in the majority of cases, a decline between 1939 and 1945.[17] Also, according to the Council of Economic Advisers, over-all output of goods and services per man hour dipped sharply during the war, its low point coinciding with the wartime peak in the number of hours worked per week.[18] Hence the wartime rise in annual output per worker was due primarily to longer hours of work and not to increased productivity.

It is clear from the foregoing that the tendency of productivity to decline in periods of all-out war production is a general rule, to which the United States is no exception. But declining productivity does not mean in itself a lessening of speedup. Quite the contrary may be the case, especially in a war economy. The exigencies of war create a demand for maximum production in the shortest possible time. Under these conditions, the main reliance is placed, not on technological improvements but on maximum utilization of manpower, that is, on maximum employment, maximum lengthening of working hours, and maximum intensification of labor. Hence capitalist war economy, by its very nature, adds to the pressure for increased speedup.

The actual intensity of this pressure may vary greatly under different circumstances and in different industries. In Nazi Germany, speedup raised to the very limits of endurance was practically universal by the end of the war. In the United States, on the other hand, where the war did not have the same destructive impact, the pressure was much less severe. And in a number of war industries where cost-plus contracts paid a bonus for decreased efficiency, there was even a tendency for speedup to be appreciably lessened. But even under such conditions the demand for greater intensity of labor was by no means eliminated, and the more the other wartime factors operated to reduce productivity, the greater was bound to become the effort to compensate for it by driving the workers to produce at an ever faster pace.

Among other things, the war years witnessed a very extensive mushrooming of incentive plans. Not infrequently, these were adopted with the blessing of the labor unions, including the progressive-led unions, both as a device for circumventing the Little Steel Formula and as a stimulus to maximum production for the war effort. But the inevitable effect of such plans was, in the end, greater speedup. And undoubtedly this, as well as long hours of work, was responsible for the rise in the industrial accident rate during the war.

The postwar period ushered in a new spurt of productivity. A 1952 Department of Commerce survey states: "Although private real product per man-hour dropped immediately after World War II, the average annual rate of increase since 1947—in excess of 3% through 1951—has been well above the twentieth-century rate as a whole."[19] A recent CIO study places the average annual rise at over 4% from 1948 through 1950, and at over 5% in 1950.[20]

Embodied in this accelerated rise in productivity is an unprecedented growth in speedup, which has reached an intensity never known before. The wartime rash of incentive plans has, since the end of the war, spread much more widely. The steel industry, in particular, has become a veritable hodgepodge of such speedup schemes, through which more and more production is sweated out of the steelworkers. In the textile industry, work loads have been generally increased by anywhere from 33% to more than 100%. In auto, the repeated speeding up of assembly lines and jacking up of production quotas has become commonplace. The rapid growth of "automatization," particularly in auto, has served to intensify speedup all the more. And so on for every major industry.

Especially since the outbreak of the Korean war has the rate of speedup been enormously increased. This is reflected, among other things, in a new rise in the industrial accident rate. After declining between 1946 and 1950, the rate increased from 14.7 injuries per million man hours in the latter year to 15.5 in 1951, and in a number of war-connected industries the increase was much greater.[21]

We cannot attempt here to evaluate statistically the actual extent to which speedup has grown. Nevertheless, despite the efforts of the warmongering labor leaders to minimize and ignore it, there can be no doubt that for the vast majority of workers in the mass production industries, speedup has become a more crucial issue than ever before. This is most sharply demonstrated in the growing waves of strikes, work stoppages and other actions against speedup, especially in steel and auto, which has swept across the country during the past several years, and which the combined efforts of the employers and the labor bureaucrats have been unable to choke off.

In connivance with its labor lieutenants, monopoly capital has sought to stem the tide of resistance through a variety of devices. Among them are five-year contracts, iron-clad "company security" clauses giving the employer full rein in setting production standards to suit himself, and such gimmicks as the "productivity increment." The last, a product of the fertile brain of Defense Secretary C. E. Wilson in his former capacity as president of General Motors, pretends to compensate the worker for his annual increase in productivity with a fixed annual raise of four cents an hour. In return for this pittance, the right to oppose speedup is surrendered and the employer is given a green light to increase the worker's output as much as he possibly can, on the fictitious grounds that the worker is being "compensated" for it. But all the devices and gimmicks, all the connivance with class-collaborationist labor leaders, cannot long hold back the full flood of resentment and struggle against the killing pace of work being forced on the workers today.

The current increase in speedup is the fruit of today's war preparations. And as the war economy continues to unfold, the oppressive burden of speedup must become still more oppressive. A full-scale war economy would bring into play as never before all the factors tending to reduce productivity, and hence would ultimately lead to the intensification of labor to an unheard-of degree and the subjection of the working class to the most ruthless exploitation in its history.

In its preparations for a new world war, American imperialism aims at the wiping out of all existing standards and safeguards of working conditions, and at the crushing of all opposition to such moves. Instruments of compulsion have already been prepared, in the form of the Taft-Hartley, Smith and McCarran

Acts. These the monopolists aim to use, together with additional repressive laws, in an effort to subject the American working class to the same bitter fate as that inflicted on the German workers under the Hitler regime. The continued growth of the war economy offers the American worker only the prospect of being eventually reduced, like his German predecessor, to an industrial wreck. And this he can prevent, in the long run, only by putting an end to the entire program of war and war preparations.

5

WAR PROFITS

The Most Lucrative "Business"

Monopoly capital, Stalin has pointed out, cannot be satisfied with the average rate of profit, but is compelled to seek maximum profit. And the organization of war, he states, "to the magnates of modern capitalism is the 'business' best adapted to the extraction of the maximum profit."[1] For war is indeed an exceptionally profitable "business." War production yields not just "normal" profits but superprofits, and moreover, superprofits guaranteed by the government with little or no risk to the capitalists.

It is the quest for maximum profits, and this alone, which motivates the monopolists in times of war, as at all other times. Even while they mouth hypocritical appeals to the patriotism of the workers, they themselves are moved by no patriotic principles whatever, but only by the prospects of cold cash, without which they would produce not so much as a single bullet even in the face of the gravest national peril.

When President Roosevelt appealed for more taxes in 1942, after the United States had entered the war, he was cynically answered by Lammot du Pont with these words: "I say this war doesn't eliminate the profit incentive. War or peace, profits must obtain. . . . This is a sellers' market! They want what we've got. Good. Make them pay the right price for it."[2]

This attitude was by no means confined to the hard-headed Mr. du Pont. On the contrary, it was quite general, as the Temporary National Economic Committee, in its investigation of monopoly power at the outset of World War II, points out:

> Speaking bluntly, the Government and the public are "over a barrel" when it comes to dealing with business in time of war or other crisis. Business refuses to work, except on terms which it dictates. It controls the natural resources, the liquid assets, the strategic positions in the country's economic structure, and its technical equipment and knowledge of processes. The experience of the World War, now apparently being repeated, indicates that business will use this control only if it is "paid properly." In effect, this is blackmail, not too fully disguised.[3]

For the sake of its profits, big business will not only resort to such blackmail, but will not hesitate even to betray the national interest, as the French monopolists did in handing the country over to Hitler, or as the American monopolists did during World War II in maintaining cartel agreements with the German trusts to the great damage of this country's defense effort.[4]

War production is exceptionally profitable in a number of ways. In civilian production, the decisive factor is cost, but in war production the decisive factor is the maximum output of the most up-to-date arms and equipment *regardless of cost.* The tremendous shortages of materials which this necessity creates opens the way to the most conscienceless profiteering and price gouging. Prices are set at such a level as to allow a generous profit to even the most marginal of producers, and for the big monopolies such prices mean greater profits than ever. Through their control of the economy (and of the government apparatus as well), the monopolies are able not only to extort fantastic prices for everything they produce, but in addition to assure themselves guaranteed profits, at times without having to invest even a single penny.

Moreover, large-scale military expenditures open the floodgates to every conceivable form of graft, thievery and corruption. The federal budget becomes tremendously enlarged. Vast government appropriations are available for the grabbing, and capitalist ethics dictate only that they be grabbed in the swiftest, most expedient and most efficient way. Robbing the public till becomes an overtime job for businessmen, government officials and racketeers alike.

In the course of war, a nation's material resources may be largely destroyed. Its people may be reduced to extreme poverty and even starvation. But until the very end, the flood of profits continues in undiminished volume. This is strikingly illustrated by the profits of the big German corporations during the first World War.*

Between 1913-14 and 1917-18, the average profits of some 4,700 German corporations jumped more than 40%, and the rate of profit on capital stock rose from 10.0% to 13.7%. Only in the following year, marked by military defeat, revolution and civil strife, and economic disruption, did profits fall below the prewar level.[5] In short, the German cartellists clearly did not suffer as a result of the war, although the German people just as clearly did.

A more recent illustration is provided by the postwar trend in profits in the Western European countries. In spite of the mounting inflation, the worsening economic conditions and the growing "austerity" in these countries, aggravated by the huge armaments budgets thrust upon them by American imperialism, profits have greatly increased. For example, in Britain, as Eaton shows, from the second quarter of 1947 to the second quarter of 1951, industrial profits rose 62% and weekly wages only 32%.[6]

Hence war economy, war, and even military disaster only serve to increase the enrichment of a parasitic capitalist class at the expense of the people.

In the United States, especially, the capitalist class has grown rich on war. From the Civil War on, every major conflict has been the occasion for a tremendous spurt in the accumulation and concentration of wealth, and in the growth of the financial and economic power of the American capitalists. The Civil

* At this point, it is well to call attention to the unreliability of all published profit figures. The concealment of profits is a universal practice among capitalist concerns, so much so that profit figures in financial reports have been both humorously and aptly defined as "those amounts that could not be hidden elsewhere." Such figures must therefore be regarded only as *minimum* estimates, and not as representing the actual amounts of profit. This is especially true of wartime profit figures. For an account of methods of profit concealment, see Labor Research Association, *Trends in American Capitalism,* New York, 1948, pp. 35-38.

War laid the foundations of the big capitalist fortunes. World War I transformed the United States from a debtor nation to a creditor nation. And from World War II the American monopolies emerged with greatly expanded productive facilities and capital reserves, by far the most powerful in the entire capitalist world. In every war, this has been accomplished through the most shameless, unbridled profiteering and plunder of the public treasury.

Profits in World War I

The first world war presented American capitalism with opportunities for profiteering on a hitherto undreamed-of scale. From the very beginning there arose an insatiable demand for strategic raw materials and finished war goods on the part of the belligerent nations. Acute shortages developed almost overnight, and prices skyrocketed to dizzying heights.

Needless to say, wartime profits, especially of the big monopolies, also soared. Total net corporate income rose from $3.8 billion in 1912 to a peak of $10.5 billion in 1917, higher than even the record peacetime profit of $9.8 billion before taxes later achieved in the banner year 1929.[7] The operating profits of the steel corporations rose from about $200 million in 1915 to a peak of $1,035 million in 1917.[8] Net taxable income of the du Pont Company jumped from $4.6 million in 1913 to $127.6 million in 1916, and in the latter year a 100% dividend was paid on common stock.[9]

Even more striking was the jump in the *rate* of profit. Net earnings of United States Steel were 5.2% on investment in 1915 and 24.9% in 1917. In the latter year, some steel companies reported as much as 300% profit. Oil companies, in the first quarter of 1918, averaged 21% on investment, with some running as high as 122%.[10] Among the copper companies, profits in 1917 ran as high as 800%.

But this is only part of the story. There were other, equally lucrative sources of loot.

Despite the supposed neutrality of the United States, J. P. Morgan and other big bankers made extensive loans to the Allied governments. By early 1917, these totaled about $1.5 billion. At this point, prospects for repayment began to look very dim, and the loans were stopped. However, the Wilson administration, casting off all pretense of neutrality, obligingly agreed to make direct government loans to the Allies—an act which was instrumental in precipitating the American entry into the war.

The federal government also took over the shaky private loans, paying the bankers in full. By the end of the war, nearly $10 billion was loaned by the government to European states, most of which was later defaulted. But the Wall Street financiers had gotten their money back with full interest, and had passed the loss on to the public treasury. Besides, the European countries received the loans not in cash, but in war goods at vastly inflated prices. The American monopolists got the cash, thus profiting from both ends of the deal.

There were still other sources of plunder, among them the disposal of war goods and equipment after the signing of the armistice. One of the most glaring instances was the shipping industry, in which ship operators were able to buy up government-owned vessels at prices ranging from 2.5 to 8 cents on the construction dollar. Twenty years later, in the best J. P. Morgan tradition, some of these very same ships were resold to the government at 33 cents on the construction dollar![11]

World War II—A New Orgy of Profits

In contrast to its predecessor, the anti-fascist war against the Axis powers was marked by the early imposition of rationing and controls on the prices of vital war materials, which prevented some of the fantastic price increases of the earlier conflict. Thus, the *American Metal Market* composite steel price, which stood at 2.64 cents per pound in 1939, remained at 2.65 cents from 1941 through 1945. Copper, which sold at 11.23 cents per pound in 1939, was pegged at 12.00 cents throughout the war. Aluminum, the price of which in 1939 was 18 cents a pound, dropped to 15 cents and remained at that level through 1947.[12]

But such measures did not prevent or even curtail profiteering and plunder by the monopolies; they merely were compelled to utilize other, less crude, though equally effective techniques. The just character of the war in no whit diminished the greed and rapacity of the American imperialists, who used it to organize an orgy of profits far outstripping World War I.

The big corporations, as we have seen, refused to produce for the war except on their own terms, and even engaged in a sitdown strike at the outset of the war to force compliance with their blackmailing demands. They insisted on protection of their profits against "excessive" taxation, and they got an excess profits tax measure thoroughly riddled with loopholes and rebates. At the same time, they insisted on the preservation and strengthening of their monopoly control of production. Fearful of any threat to their monopoly price structure, maintained chiefly by artificially limiting production, the trusts steadfastly refused to expand their capacity or to permit the subsidizing of new producers, except on terms which would guarantee their profits and control. This was particularly marked in the aluminum and steel industries.

In the auto industry, the big manufacturers persistently delayed conversion to war production, and maintained full civilian production until the outright prohibition of the manufacture of passenger cars forced them to stop. And as part of their blackmail, the monopolies demanded and got the virtually complete suspension of the anti-trust laws for the duration of the war.

The price extorted by monopoly capital also included cost-plus contracts which allowed enormous profits through greatly inflated production costs. And it included the construction of billions of dollars worth of new plant and equipment at government expense. By June 1945, some $26-billion worth of new facilities had been constructed, of which roughly two-thirds was financed directly with federal funds. All of this was turned over to private firms to operate.

Furthermore, even the privately constructed plants were virtually a gift from the government, since the corporations which built them received certificates of necessity permitting them to write off most of the depreciation, for tax purposes, in five years instead of the usual 20 to 40 years. This meant that they could deduct from taxable income part or all of the costs of the new plant and equipment, so that by the end of the war the bulk of these costs had been fully paid for through tax rebates. All told, in the course of the war big business received a windfall of about $7.3 billion in such tax reductions.[13]

The war economy thus served to increase immensely the parasitism of monopoly capital. Capitalists generally attempt to justify their profits on the grounds that they supposedly constitute a return for the risk they take by investing their money in production. But here, in one way or another, they were handed the most modern, up-to-date plants, together with government contracts guaranteeing them huge profits, with little investment on their part, and in many cases *without their having to invest even a single cent of their own money.*

The results of all this profiteering and extortion are evident in the skyrocketing of profits during the war years. For all corporations, the yearly average of profits before taxes jumped from $5.4 billion in 1936-39 to $19.4 billion in 1940-45, and the yearly average of net profits after taxes from $4.1 billion to $9.2 billion.

According to the War Production Board, profits after taxes of manufacturing and mining corporations rose from $3.0 billion in 1939 to $6.4 billion in 1944, and the rate of profit on net worth from 6.6% to 10.7%. During the same period, the net worth of these corporations itself increased by one-third, and working capital more than doubled.[14]

It should be emphasized that these are only the gains in *reported* profits. They do not include the additional billions of dollars concealed in vastly inflated depreciation allowances, extravagant sums set aside for reconversion, enormously swollen salaries and bonuses for corporation executives, and a host of other forms which could be used to special advantage during the war.

Underlying this huge accumulation of profits is a Saturnalia of graft, trickery and fraud for which it would be difficult to find an equal. The greatest part of this mess of corruption still remains hidden; however, a small corner of the curtain covering it is lifted by Blair Bolles in his book, *How to Get Rich in Wash-*

ington. He describes the connivance of war contractors and government agencies as follows:

> Congressional laws and military policy in effect guaranteed a profit to the war contractors no matter how improvident and inept they might be as businessmen. When they met problems that they had failed to anticipate, the war agencies, with friendly spirit, speedily revised their contracts upward to cover new costs. A few bold spirits hoodwinked the War Department into turning back to them, disguised as settlement money, the income taxes, excess profits taxes, and even withholding taxes (which their employees had paid) that they had turned over to the Treasury in compliance with the Internal Revenue Laws.[15]

In the final settlements of contracts at the end of the war, Comptroller General Lindsay Warren, although working from grossly inadequate data, nevertheless found clear evidences of fraud in one of every seven cases. The following are typical examples:

> A dozing government official let one contractor charge the United States $2,137,012.61 for an inventory which the contractor himself had appraised at $1,068,124.53. Having taken the inventory at the higher figure, the government, lulled by false assurances that the market for the merchandise was poor, sold it back to the contractor for $339,358.14. . . .
>
> [Another contractor] had contracted to make 17 ordnance trucks for the Army, at a cost to the government of $665,000. He delivered two vehicles. The army rejected them because they did not meet the specifications in the contract. That terminated it until a review agency decided that the contractor had been mistreated. In keeping with the general policy of guaranteeing a profit to contractors, the tender-hearted reviewers ordered the government to settle with him for $938,760.38, or $273,760.38 more than he would have received if he had made the 17 trucks.[16]

Altogether, as a result of these investigations, some $21 million in fraud claims were placed against war contractors, which obviously represents but a small fraction of the total amount of which the government was fleeced. But no serious effort was made to collect even this. By October 1952, a House judiciary subcommittee reported, the Department of Justice had recovered no more than $300,000.

The same thievery and fraud were manifested in the disposal of surplus war goods and equipment, which gave rise to one scandal after another in the immediate postwar years. The shipping industry, which was such a glaring example in World War I, continued its shameful record in World War II.

For example, in the course of the war one shipping company, on 23 ships bought from the government at the end of World War I at 4 cents on the dollar, received from the government in charter hire and insurance more than eight times what it had paid for the vessels over twenty years before. Moreover, at the end of World War II, large numbers of vessels were again disposed of by the Maritime Commission at a fraction of their construction cost. The net result of these handouts was that, on top of their gigantic wartime profits, the twelve big subsidized shipping lines, between 1937 and the end of 1945, multiplied their total net worth by *more than five times.*[17]

These limited disclosures bring to light only a small part of the picture. They tell nothing of the immeasurably larger sums of which the government treasury was undoubtedly defrauded by the top corporations which held the great bulk of the war contracts. They are sufficient, however, to give at least an insight into the vast network of graft and corruption which characterized the war economy, and into some of the means by which the big capitalists, during the war, enriched themselves by untold billions of dollars at the expense of the American people.

Cold War Profiteering

The World War II profit orgy did not end with the war. On the contrary, profits have since risen to levels which make the record take of the war years seem insignificant by comparison. At the very outset, in addition to the booty from war contract settlements, disposal of surplus war assets and similar sources, the big corporations greatly augmented their profits as a result of the scrapping of price controls. And the new expansion of military expenditures, beginning soon afterward, brought fresh opportunities for profiteering and price-gouging.

In the absence of any semblance of real price controls, after the outbreak of the Korean war the prices of war goods, as well as the cost of living, swiftly skyrocketed. Spot prices of industrial raw materials soared to new heights, the BLS index rising by more than 56% in the space of seven months. By the end of 1951, prices of such key materials as foundry coke, pig iron, steel and copper had risen to more than double the 1945 averages.[18]

The prices of finished goods purchased by the armed forces also soared. A Defense Department report in December 1951 complained that of every $10 million the department was authorized to spend, nearly $2 million had been lost through price rises since the spring of 1950.[19]

The new war economy also brought with it, in September 1950, the revival of handouts to big business in the form of rapid tax write-offs. By November 1, 1953, the Office of Defense Mobilization had granted certificates of necessity for 18,245 construction projects costing $28.5 billion. Of this, rapid tax write-offs were allowed on roughly 61%, or some $17.5 billion, a sum considerably more than double the total for all of World War II.[20] In addition, new facilities continue to be built entirely at government expense and turned over to big corporations to operate.

It is not surprising, therefore, that since 1945 profits have again shown a steep increase. In the period of 1946-50, net corporate profits averaged $31.5 billion a year before taxes and $18.6 billion after taxes. The latter figure is *more than double the wartime average.* After Korea, profits rose still higher. In 1951-53, they averaged about $42.0 billion a year before taxes and (despite higher tax rates) $19.4 billion a year after taxes.

Even more striking is the continued rise in the *rate* of profit. According to the estimates of the Federal Trade Commission, net income after taxes for all manufacturing corporations in 1950 averaged 15.8% of net worth.[21] This was more than twice the 1939 rate and nearly 50% higher than the 1944 wartime peak. And in 1951, according to a report by the Office of Price Stabilization, steel profit rates before taxes exceeded the 1946-49 average by 95%, oil profits by 25%, chemical by 72%, and rubber by 62%.[22]

Most profitable of all corporations is General Motors, which in 1950 reported a record profit of $834 million after taxes. This amounted to 34.6% on net worth, more than twice the wartime rate, and sufficient to enable the company to *earn back its total investment in less than three years.*

Today, too, the monopolies have brought the techniques of fleecing the government to a new level of perfection. And in this respect General Motors, the biggest beneficiary of all, has achieved an exceptional record.

In 1951, a report by two staff members of the Senate Armed Services Committee disclosed that GM had charged the Air Force 39.8% profit on the manufacture of jet engines, and 36.2% profit on the manufacture of aircraft spark plugs. The "legal" profit limit on war contracts was 6%, but GM got around it by the simple device of farming out the contracts to a succession of subsidiaries, each of which added its own profit.[23]

In the same year, it also came to light that GM had been awarded a $69-million order by the Air Force for 757 turret lathes at $90,600 each, when the very same lathes were being built by another concern for $38,000 each. The contract, which had been awarded on the recommendation of H. R. Boyer, a GM official who was at the same time chairman of the Aircraft Production Board, was cancelled shortly afterward when someone discovered that there had been no need for such a number of turret lathes in the first place![24]

The same lavish generosity in handing out government funds has been exhiibted in the granting of certificates for fast tax write-offs. Certificates have been granted in many cases on plant expansion already planned and even completed, as well as on the construtcion of plants which can be related to war production only by a violent stretch of the imagination.

A glaring example is the case of International Paper Company, the huge trust which dominates the paper industry. This firm built a $20-million pulp dissolving mill in Natchez, Mississippi, which was already completed and in operation before June 15, 1951. Yet after that date the company asked *and got* a certificate of necessity for 65% of the cost, thus reducing its taxes by some $12 million.[25] In another case, the same generosity "enabled three men to obtain a tax certficate of $4,275,340 and a defense loan of $7,800,000 for a steel company that existed only as a plan on paper and in which the three men had invested but $600 of their own. They were the sole investors."[26]

Small wonder that a House Executive Expenditures subcommittee in 1951, after looking into this give-away program, termed it "the biggest bonanza that ever came down the government pike"!

To all these assorted forms of plunder, the new give-away program of the Eisenhower administration is adding a fresh series of big steals. Beginning with the handing over of tidelands oil resources to the states for the benefit of the oil magnates, these extend to the turning over of public power resources and facilities to the utilities trusts, and threaten to include the greatest steal of public timber and grazing lands in the entire history of the country.

The present war economy has given rise to a flood of graft, corruption and fraud which is without parallel in the whole corrupt history of American imperialism. Today's huge military expenditures, unmatched in peacetime, are the fountain from which flow the highest profits in all time. And this vast source of loot monopoly capital is determined to perpetuate, for the organization of wars has indeed proved itself to be "the 'business' best adapted to the extraction of the maximum profit."

What Do the Workers Get?

While war economy greatly accelerates the growth of monopoly profits, it simultaneously tends, as has been shown, to depress the purchasing power of the workers. The net effect, therefore, is to accelerate the historical process of relative impoverishment of the working class, that is, of the decline in the proportion of his product which goes to the worker, and the corresponding increase in the proportion appropriated by the capitalist. Or, to put it more plainly, in a war economy the rich grow richer and the poor grow poorer at an even faster rate than usual, and the gulf between extreme wealth and extreme poverty widens all the more rapidly.

The measurement of this trend is very difficult, especially since official statistics are universally designed to obscure it as much as possible, and we cannot, within the confines of this study, attempt to analyze it rigorously for the period since 1939. Nevertheless, the official statistics cannot altogether conceal the relatively sharp drop in the share of the American workers in the national product during this period.

Some indication of this is given by the changes in the distribution of the gross national product (Table V). In 1939, 74% of all expenditures for goods and services were personal consumption expenditures; by 1952, these had dropped to 63%. Meanwhile, gross private domestic investment rose 4% and government purchases 8%. These figures show that personal consumption expenditures, of which the overwhelming part are accounted for by the personal consumption of the working people, fell by 11% in favor of increased accumulation of capital and government expenditures (today chiefly military expenditures), which go mainly to augment the wealth of the big capitalists. By contrast, in the depression decade 1929-39, when there was also a large rise in government spending, the share of the national product going into personal consumption fell by only 2%.

TABLE V

MAJOR COMPONENTS OF THE GROSS NATIONAL PRODUCT AS PER CENT OF TOTAL*

	Personal Consumption Expenditures	*Gross Private Domestic Investment*	*Government Purchases of Goods and Services*
1929	76	15	8
1939	74	11	14
1946	70	14	15
1952	63	15	22

* Net foreign investment is omitted.

SOURCE: *The Economic Report of the President,* January 1953, p. 165.

For the World War II period, a more clear-cut picture is provided by the trend in the index of relative position of the worker in manufacturing. This index, devised by the Labor Research Association, measures the worker's share in the product of his labor as given by the ratio of his real annual wages to his annual output. From 1939 to the first half of 1945 this index, computed in terms of the BLS consumers' price index, dropped 6%. In terms of the UE cost-of-living index, the decline was fully 25%.[27]

This downward trend has continued since 1945, with an additional drop in the relative position of the workers, according to the Labor Research Association figures, of approximately 5% between 1947 and 1951.[28] But this gives a very inadequate picture of the real extent to which the share of the product appropriated by monopoly capital has grown in the postwar period. Profits have soared to a degree which greatly overshadows even the spectacular increase of the war years, while the real income of the workers, and of the small and middle farmers as well, has tended on the whole to decline. Chester Bowles, commenting in a 1951 article on these undeniable facts, drew the obvious conclusion: "Corporations as a whole, and manufacturing in particular, have received a growing percentage of our economic wealth in the last five years, and this trend had increased sharply since Korea."[29]

It is quite clear, therefore, that war economy invariably accelerates the growth of profits at the expense of the mass purchasing power of the working people. In short, war economy serves the capitalist class as a device for intensifying its robbery of the workers, for stripping them all the more rapidly of a growing share of what they produce. This is the source (and, of course, the only possible source) of the fabulous profits which make preparations for war so incomparably attractive to the monopolists.

For those who are being robbed, war economy can obviously hold no such attractions. Despite temporary benefits which it may bring through increased employment, war production in the end can only lead the worker to ruin. It saps his purchasing power and more speedily increases the gap between the amount he produces and the amount he can buy. Thus, far from preventing economic crises, it only paves the way for more violent crises.

6

WAR AND THE FARMERS

World War I Boom

Food is a strategic factor of major importance in wartime. In both world wars, it became a very acute problem in those countries which normally import much of the agricultural produce they consume (for example, Britain and Germany). At the same time, countries like the United States, Canada, Argentina and Australia, virtually self-sufficient with regard to most of their basic agricultural needs and remote from the actual scenes of combat, were in a position to export considerable quantities of farm products to the warring countries in Europe. It was this which gave rise to their wartime agricultural booms.

World War I ruined the agriculture of the European belligerents and increased enormously their demands for farm imports. By far the steepest rise occurred in the demand for wheat; hence the farm boom in the United States and elsewhere was concentrated in wheat production. Thus, total wheat acreage in this country rose nearly 61% between 1910 and 1920, while in contrast corn acreage remained practically constant and cotton acreage grew by only 11%. The wheat boom, which reached its zenith in 1919, was based throughout on a record volume of exports; in 1917-19, these averaged over one-fourth of the total output.

The chief means of increasing production was expansion of acreage. Aside from the more widespread use of tractors on the big western wheatfields, there was little resort to increased mechanization or more intense cultivation. Output per man hour remained virtually static throughout the war period. For the most part, therefore, the boom led simply to the planting of as many acres of wheat as possible in order to reap the quick and easy profits made possible by the sudden skyrocketing of prices.

Agricultural prices in general shot sky-high. In 1919, prices received by farmers were more than double the 1909-14 average. At the same time, the parity ratio* rose from 99 in 1914 to a peak of 118 in 1918, and the farmer's share of the consumer's dollar from 46 cents to 51 cents.

Hence the boom produced a temporary improvement in the economic conditions of the farmers as a whole, both absolutely and in relation to the rest of the economy. It would be wrong, however, to think that the wartime prosperity was enjoyed equally by all farmers, large and small. On the contrary, monopoly capital, always quick to sense the possibility of profits, stepped in together with the big farmers to skim off the cream. This was accomplished by a variety of means: By the grip of the big banks and insurance companies on farm credit and their control of interest rates; by direct investment in large-scale farming and closer merger of monopoly with the big farmers; by business control of the market outlets for farm products; and so on. In short, World War I was a period in which the growth of capitalist production in agriculture, the tightening of the grip of finance capital, and the impoverishment of the small farmers were all greatly accelerated.

The small farmers were left with relatively slim pickings from the war boom and, in order to obtain these, they were compelled to go considerably into debt. From the beginning of 1914 through the end of the war, total farm mortgage debt outstanding rose by more than half, and the volume of commercial bank non-real estate loans by two-thirds.

As a result, when the inevitable postwar decline came, a mass of small farmers found themselves weighed down by a millstone

* The parity ratio, computed by the Department of Agriculture, is intended to express the relationship of prices received by the farmer for his products to the prices he must pay for the commodities he buys. The effect of the price scissors (that is, the growing gap between farm prices on the one hand and the prices of monopoly-controlled manufactured goods on the other) is to depress the ratio, while that of an agricultural boom is generally to raise it.

of war-inflated debt. And in the postwar agricultural crisis, this new burden of debt contributed heavily to the ruin of multitudes of small farmers. For the average farmer, the war boom turned out in the long run to be a sad and sobering experience.

Aftermath—The Chronic Crisis

The agricultural boom continued for a time after the end of the war, while the European countries went about repairing the ravages of the four-year imperialist conflict. But recovery was rapid, and by the second half of 1920 agricultural production in the Western European countries had reached and surpassed the prewar levels. The result was a flood of farm products which quickly saturated the market and forced prices drastically downward. In the second half of 1921 alone, prices fell as much as 60 to 65%.[1] And they stayed down. Agriculture entered a crisis of overproduction affecting most types of farm products and practically the entire capitalist world.

At its onset in 1921, the farm crisis was accompanied by a crisis of industrial overproduction. The latter, however, was of short duration and soon gave way to the industrial boom of the twenties. But the agricultural crisis persisted and became chronic. Throughout the twenties farm prices continued to decline, and unsold stocks of farm products to accumulate. Agricultural income dropped from 20.8% of the total national income in 1919 to 9.4% in 1921. In 1929 it was still only 9.9%.[2] The parity ratio remained almost uninterruptedly below 90, and even in 1929 was no higher than 89.

The farm crisis was an important contributing factor in the 1929 crash, by which in turn it was itself greatly deepened. In this country, the depression of the thirties hit the small farmer with special severity. In 1932, farm income was only 5.8% of total national income, and in 1940 it was still less than 10%.[3] The parity ratio fell to 55 in 1932, and by 1940 had climbed back only to a level of 80. The agricultural crisis persisted until well after Pearl Harbor, before the specter of overproduction was again temporarily exorcised by the exigencies of all-out war.

The chronic crisis of agriculture is an integral part of the general crisis of capitalism which was ushered in by World War I (see Chapter 9). Crises tend to break out most readily in the weakest and most backward sectors of the capitalist economy. Hence, agricultural crises have usually preceded industrial crises, and have also tended to outlast them. With the onset of the general crisis, when the problem of markets had become critical for capitalism as a whole, the crisis of overproduction in agriculture became chronic in nature. The over-expansion of agriculture during World War I, and the accompanying accumulation of a huge burden of farm debt, served to aggravate the crisis and to accentuate its effects on the masses of small farmers.

The capitalist class has attempted to deal with the crisis by a variety of schemes, all aimed at somehow getting the glut of unsaleable farm products off the domestic market. These range from programs for raising tariffs and dumping export surpluses abroad to outright crop reduction and various forms of price supports and export subsidies. All these devices, however, have proven essentially ineffectual, providing only momentary and limited relief.

The only "solution" of more lasting effect which capitalism has been able to find is the intensified ruination of the small farmers. To be sure, the crisis itself served to accelerate their impoverishment and their reduction to the status of rural proletarians. But even this has been too slow to suit the big business-big farmer alliance, which with increasing frequency has come forward with proposals for direct government measures to eliminate large numbers of small farmers and their families from agriculture, leaving the field to the big capitalist farmers. Such proposals were advanced as far back as 1929, and there has been a growing flood of them ever since.

Such, then, was the ultimate outcome of the World War I agricultural boom: its culmination in the chronic crisis of agriculture with all its disastrous consequences for millions of small farmers, a crisis which persisted with almost undiminished severity well into the period of World War II.

Farmers in World War II

When the second world war broke out, many farmers, remembering only too vividly the disastrous experiences of the past, were extremely reluctant to plunge into new expansions of production. "American agriculture," as one economist put it, "entered World War II with most of its long-range problems unresolved: depression prices, excessive surpluses, underemployed human resources, and sub-standard living conditions. The lessons of over-expansion of World War I and the ensuing overhang of mortgage debt remained fresh in farmers' minds."[4]

Consequently, there was widespread unwillingness to increase output or to accumulate stockpiles of farm products to meet the demands of the war emergency. This reluctance was strengthened by the adoption by Britain and France of a policy of limiting agricultural imports from the United States in order to conserve their dollars for the purchase of war materials. As a result, agricultural exports fell off steeply from $783 million in 1939 to $350 million in 1940.

The expansion of farm output consequently marked time, while the federal government, even after the American entry into the war, combined exhortations with promises in an effort to overcome the inertia. In October 1942, Congress enacted the Steagall Amendment, pledging the maintenance for two years after the war's end of price supports for all basic farm commodities, as well as for all others for which production goals might be raised during the war. It was not until December 1942, fully a year after Pearl Harbor, that the policy of crop reduction was officially ended.

Eventually, however, the impact of the war made itself felt. On a world scale, as the war grew in intensity and large areas were subjected to devastation and blockade, the demand for exports soared. At the same time, as the United States itself entered into full-scale war preparations, and as the war boom increased civilian demand, the home market was greatly enlarged. Thus, belatedly, the World War II agricultural boom got under way. For the first time in more than twenty years, there was again a market for as much as could be produced.

The new wartime boom differed in a number of respects from that of the first world war. This time the expansion of production was not confined to wheat; instead, agricultural production as a whole rose sharply. In 1944, it was 30% above the 1935-39 average, an increase considerably greater than in all of the preceding two decades. This time, too, increased domestic consumption played a very important role. By 1945, per capita consumption of food was 15% higher than the prewar level. Food exports, though they achieved new records, were only half as much in relation to total food production as in the earlier conflict.[5]

Furthermore, in contrast to World War I, the increase in output was only partially due to expansion of acreage. This time there occurred also a big jump in productivity. The war years witnessed a very marked increase in the rate of mechanization, which in the prewar period had been relatively slow and limited largely to wheat farming. Between 1940 and 1945, the number of tractors on farms increased by 57%, trucks by 42%, milking machines by 109%, grain combines by 97%, and mechanical corn pickers by 53%.[6]

At the same time, a steep drop in the volume of agricultural manpower occurred. Farm population had been declining since World War I, but the squeeze exerted by the draft and the demand for labor in war industry led to the depletion of farm labor at an alarming rate. So serious did it become that in 1942, farm draft deferments were made mandatory by Congress, and foreign farm laborers began to be imported in growing numbers.

The rise in agricultural output, therefore, entailed a marked increase in productivity. From 1939 to 1945, the index of output per man hour rose from 107 to 136, an average annual increase of 4.5%, or well over twice the prewar rate.[7] In addition, thanks to increased use of fertilizer, crop and soil improvements, and especially favorable weather in some years, production per acre also increased substantially, rising by as much as 15% above the 1939 level.[8]

It should be noted, however, that the wartime increase in output, as great as it was compared to prewar conditions in agriculture, fell far short of the rise in industrial production which, in the same period, more than doubled. Yet this comparatively limited increase sufficed to meet the needs of the war and to maintain a higher level of civilian food consumption as well. Here, again, is a reflection of the severity of the chronic crisis in agriculture prior to the war, and of the extent of overproduction by which it was marked.

The war boom led to a pronounced improvement in the economic position of the farmers as a whole. Between 1939 and 1945, net income from farming more than doubled. The parity ratio rose from 77 in 1939 to a peak of 113 in 1943, and in 1945 still stood at 109. The farmer's share of the consumer's dollar increased from 38 cents in 1939 to 54 cents in 1945.

This prosperity was not uniformly enjoyed by all farmers; on the contrary, even more than in World War I, it was the big farmers who got the lion's share and who were able to improve their position most. The process of squeezing out the small farmers, far from halted by the war, was continued and even accelerated. This is shown in a number of ways.

First, mechanization was confined mainly to the biggest farms. In 1945, two-thirds of all farms were still without tractors. Consequently, the accelerated mechanization of the war years led to the further worsening of the relative position of the small farmer, and at a more rapid pace than before the war. This was clearly demonstrated by Digby for the period 1939-44, on the basis of preliminary returns from the 1945 Census of Agriculture. He states:

> At the time that Lenin made his study of American agriculture, based largely upon the census of 1899, the lowest fourth of the farms accounted for about 6% of the gross value of farm product; by 1939 their share had fallen to 4%, a drop of one-third in 4 decades; and now, according to this preliminary census tabulation, they are producing less than 2.5 per cent of the total, a drop of 38% in the last five years. Similarly, at the lower end of the income pyramid, two-thirds of the farmers accounted for 30% of the gross value of farm production in 1899; by 1939 their share had fallen to approximately 25%; and by 1944 their share was down to 20%. Thus, the wartime decline during the 5-year period covered by the latest census (even allowing for statistical errors) appears to be about as great and perhaps greater than over the preceding 40 years.[9]

The 1945 Census of Agriculture showed also that in 1944, on half of all farms the gross value of the product was less than $1,500 and on two-thirds of all farms it fell below $2,500.[10] Clearly, it was by no means the small farmers who became rich during the war.

The worsening position of the small farmer was manifested also in the wartime decline in the number of farms. In 1935, the total number of farms reached an all-time high of 6.8 million. Since then, it has dropped steadily. From 1935 to 1939, it fell by 602,000, and from 1939 to 1945 by another 351,000.

The wartime prosperity, therefore, did not halt the downward trend but only slowed it up. Moreover, the decrease was entirely in the number of *small* farms. "The 1945 Census of Agriculture showed more large farms and fewer small farms than in 1940. There were 110,000 farms with 1,000 or more acres, an increase of 9,000 in the five years. The number with less than 180 acres showed a drop of about 250,000 to 4,615,000."[11]

The decline in family-type farms was actually much greater than the Census figures indicate. For during the war there was a greatly accelerated growth in the number of part-time farmers, or worker-farmers, who obtain most of their income by working in urban industries and live in the country in order to raise part of their food and save on rent. From 1939 to 1944, the number of farm operators working off the farm 200 days of the year or more increased by some 48% to reach a total of 835,000, compared to a rise of 42% in the entire preceding decade.[12] These are included by the Census Bureau in its count of the total number of farms, although they are chiefly farmers in the process of being squeezed off the land.

This development was energetically encouraged by big business. It fitted in with their plans for driving out small farmers and concentrating commercial farming in large-scale capitalist enterprises. At the same time, it offered a source of cheap, largely unorganized labor—workers requiring less cash wages because of their dwarf farm holdings.

To be sure, the rise in farm mortgage debt characteristic of World War I was not repeated this time. For a variety of reasons, whether through liquidation of debt or through forced sales and foreclosures, the total outstanding mortgage debt had been steadily declining since the middle twenties. During World War II, the decline continued at an accelerated pace, with the total falling from \$6.6 billion at the beginning of 1939 to \$4.7 billion at the beginning of 1946, or more than 30%. This drop undoubtedly reflected the ability of many farmers, because of the wartime boom, to pay off much or all of their mortgages. It also reflected the absence of anything corresponding to the wild-eyed expansion of wheat acreage in World War I. But in addition it reflected the big business policy of reducing the number of small farmers, and hence of deliberately restricting mortgage loans to the "best risks," a policy which was continued during the war.

Meanwhile, farm land prices rose rapidly; by the end of 1946, they were 77% above prewar levels. This inflation with its resultant increases in down payments and monthly mortgage payments, tended, as we shall see, to make the small farmer's position even more precarious, particularly in the postwar period.

At the same time, prices of farm equipment also rose steeply. Forced to compete with mechanized production on the big farms, and simultaneously encouraged by the momentary availability of unlimited markets, many small farmers (and especially middle farmers) found themselves in a mechanization race in which they had to go increasingly into debt for equipment at constantly rising prices. This is partly shown in the greatly increased volume of outstanding non-real-estate loans to farmers by commercial banks which, in 1945, was nearly 25% higher than in 1939. This burden of increased debt also remained to plague large numbers of farmers at the end of the war boom, when net farm income began to decline and the sky was no longer the limit—except on the prices of manufactured goods.

It is plain, therefore, that the war boom did not halt the process of deterioration in the position of the small farmers. True, because of the uniquely favorable wartime situation of American agriculture, they were able to secure some temporary relief from the agricultural crisis at the expense of the less fortunate peoples of other countries. For a time, the demand for farm products rose to such heights as to obscure everything else. But the transitory economic improvement was obtained only at the cost of increasing the disparity between the big and the small farmer, of worsening the relative position of the latter at an accelerated pace, and of creating the conditions for even faster pauperization and ruin of masses of small farmers after the boom.

Despite the war-induced prosperity in this country, on a world scale the war brought about greatly increased destruction and deterioration of agricultural facilities. By the end of hostilities, agricultural output and per capita food consumption in many other countries, particularly those of Europe, had been drastically reduced.

Further, the end of the war again left American agriculture considerably overexpanded, capable of producing much greater quantities of products with much less manpower and even with less acreage. Hence the postwar recovery of the European countries, together with the loss of the wartime markets at home, could only lead, sooner or later, to the re-emergence of the chronic crisis in a far more aggravated form than before the war. The *ultimate* effect of the war economy, therefore, was to pave the way for a more severe crisis. And the almost immediate imposition of a new war economy could have no other effect than to deepen the farm crisis still further.

The Chronic Crisis Again

The postwar reconstruction in Europe provided an outlet for further large-scale exports of farm products, and thus made possible, for a brief period, a continuation of the wartime agricultural prosperity. The value of total domestic agricultural exports rose sharply from $2.9 billion in 1945 to $3.6 billion in 1946, and from 18% of the value of all exports to 34%. To be sure, the demobilization of the war economy at home simultaneously produced a sharp drop from the exceptional wartime demand for farm products, and before the end of 1945 there were already dire warnings of the danger of overproduction and a resurgence of demands for crop acreage reduction. However, the ensuing postwar upsurge in industrial production and employment, combined with the rise in exports, served to maintain the agricultural boom for a time. In 1946 and 1947, as Table

VI shows, net farm income, the index of prices received by farmers, and the parity ratio all increased substantially.

TABLE VI

THE ECONOMIC CONDITION OF THE FARMERS, 1945-1953

Year	*Net Income from Farming (billion $)*	*Index of Prices Rec'd by Farmers (1910-14 = 100)*	*Parity Ratio*	*Farmer's Share of Consumer's Dollar*
1945	12.5	206	109	54¢
1946	14.4	234	113	53¢
1947	15.6	275	115	52¢
1948	17.7	285	110	51¢
1949	12.8	249	100	48¢
1950	13.3	256	100	48¢
1951	15.6	302	107	48¢
1952	14.8	283	101	47¢
1953	11.6*	249**	90**	45¢**

* Third Quarter 1953, adjusted annual rate.
** November 1953.

SOURCES: *Agricultural Statistics,* 1951, pp. 574, 521, 595; *Economic Indicators,* January 1954; Bureau of Agricultural Economics, *Statistical Summary,* January 1954.

But in 1947, exports began to fall off. There were mounting indications that the postwar boom was about to collapse, and the specter of chronic overproduction to emerge once more. American imperialism, as we know, sought to meet this threat through increased armaments expenditures and through the Marshall Plan.

Food was to be a major weapon in the cold war. Hence, one of the very first steps was the destruction of the United Nations Relief and Rehabilitation Administration, the abolition of its policy of aid to all war-torn countries with no political strings attached, and the shutting off of relief to those countries which would not play American imperialism's game. Instead, the Marshall Plan was trotted out and presented to the world as a noble, humanitarian measure which would, among numerous other benefits, solve both the food problems of the Western European nations and the economic problems of the American farmers. As a matter of fact, it did neither.

The Marshall Plan was not in the least intended to meet the needs of the peoplc of other nations; on the contrary, it was, among other things, a scheme for getting rid of unsaleable surpluses of commodities by forcibly dumping them abroad. The Marshallized countries were compelled to take whatever they were sent. Tobacco-growing countries had to take large quantities of tobacco from the United States. Other countries had to accept wheat imports, not in the form of grain, but in the much more expensive form of flour. In many cases, even spoiled and inedible foods were shipped. And, as often as not, the commodities sent found their way into the hands of black market operators and speculators. The Marshall Plan "aid" was of little real benefit to the people of Western Europe, and their food consumption and living standards generally remained below prewar levels.[13]

Nor did Marshall Plan dumping provide any significant or lasting benefit to the American farmers. Agricultural exports rose in value to a peak of $3.8 billion in 1948, but in 1949 they deereased to $3.0 billion, a drop of 21%.

The shrinking volume of exports was caused in large measure by the mounting dollar shortages of the Western European countries, greatly accentuated by the foreign economic policies of American imperialism. In a desperate effort to conserve dollars, these countries cut down on agricultural and other imports from the United States, and even increased their exports to this country despite severe shortages at home. Moreover, the growing militarization of their economies at the insistence of American imperialism led to further curtailment of agricultural imports for the sake of increased imports of war materials. Last but not least, the cold war policy of attempting to use food for blackmail shut off exports to the Eastern European people's democracies, the Soviet Union and China. Thus the Marshall Plan, instead of expanding agricultural exports on the basis of the genuine needs of other countries, served only to contract them. The big monopolies grew richer on the billions of dollars in "aid," but the farmer was left holding the bag.*

* For a more detailed discussion of foreign "aid," see Chapter 9.

The postwar shrinkage in workers' living standards, reflected in the decline in per capita food consumption, simultaneously whittled away the farmer's domestic market. It is not surprising, therefore, that signs of an economic decline in agriculture, as Table VI shows, were already clearly visible in 1948 and that, despite the growth of military expenditures and foreign "aid," the decline continued with increasing momentum in 1949 and 1950. During this period, farm prices, farm income, the parity ratio and the farmer's share of the consumer's dollar all fell off sharply.

Surpluses of farm products began once more to pile up. Their disposal became increasingly a problem, which the Department of Agriculture and other government agencies tried to alleviate through increased destruction of commodities and dumping abroad. In 1949, the International Wheat Agreement was made, providing for the sale of wheat to other countries at prices considerably below the domestic support prices. In a four-year period, wheat was sold under the agreement at prices averaging 63 cents a bushel less than support prices, at a cost to the government of over $600 million.[14] Yet the wheat surplus continued to accumulate, as did surpluses of many other crops.

The agricultural decline preceded the industrial slump which set in late in 1948, and was in turn aggravated by it. The chronic crisis of agriculture was reappearing, and this, it should be particularly noted, *in a period of rising military expenditures.*

It was not, however, merely a recurrence of the old crisis symptoms following the interruption of war. Rather, it represented the development of the chronic farm crisis, re-emerging in the conditions of greatly deepened general crisis of capitalism, to a new, more advanced stage, for which the wartime boom helped pave the way. The new stage is marked particularly by the greatly increased concentration of ownership in the postwar years, and by the much more advanced deterioration of the position of the small farmer.

The process of mechanization proceeded at a much faster pace than during the war. From 1945 to 1950, the number of tractors on farms rose by 73%, the number of trucks by 51%, milking machines by 97%, grain combines by 73%, and mechanical corn pickers by 144%.[15] As in the past the mechanization was confined chiefly to the biggest farms. Productivity also contined its upward climb, the index of output per man hour rising from 136 in 1945 to 164 in 1950.

At the same time, the number of farms declined even more rapidly than before, falling by 477,000 between 1945 and 1950, while total farm acreage increased, and the average size of farm reached the highest point in the history of the country.[16]

The disappearance of the temporarily unlimited wartime markets placed the small farmer more and more at a disadvantage. He found himself, with falling prices of farm products, caught more tightly in the price scissors and simultaneously forced to compete with the steadily rising efficiency of the big farms, which enabled them to continue to show a profit at prices that brought the small farmer only a growing loss.

As a result, farm indebtedness grew rapidly during the postwar period. From the end of 1945 to the end of 1950, farm mortgage debt increased by nearly 24%. This was a distinct reversal of the downward trend of the war years; furthermore, the increased borrowing occurred at greatly inflated land prices which in a pronounced economic slump would certainly fall swiftly.

Even more striking is the rise in indebtedness other than mortgages which, in the same period, was multiplied nearly two and one-half times. This huge increase in borrowing reflects swollen installment buying, particularly among middle farmers seeking to overcome their disadvantage through mechanization which actually they cannot afford. This burden of debt, again at highly inflated price levels, also places the mass of small and middle farmers in a very precarious position, and adds greatly to the danger of ruin in the event of hard times and the collapse of prices.

In addition, war economy has given rise to an enormous increase in the tax burden of the farmers. Farm real estate taxes rose from $402 million in 1940 to $471 million in 1945 and to $699 million in 1949, while farm personal property taxes, in the same intervals, rose successively from $44 million to $83 million and then to $124 million. And between 1941 and 1948, income taxes paid by farmers jumped from $15 million to $960 million.[17] Here, too, the rise in taxes has been accompanied by a big shift in the tax burden to the small farmers who, in addition to all their other problems, are now compelled to pay a vastly disproportionate share of taxes.

The big drop in the number of farms between 1945 and 1950 indicates that large numbers of small farmers were indeed wiped out. And these figures do not take into account the continued growth in the number of worker-farmers. By 1949, the number of farm operators working off the farm 200 days a year or more had grown to 942,000.[18]

With the re-emergence of the chronic crisis, monopoly capital and the big farmers have renewed their clamor for reduction of crop acreage and the elimination of additional masses of small farmers from agriculture. Since 1945, there has been a constant stream of such proposals, calling for diminution of the number of farmers by anywhere from 1.5 to 4 million.[19]

To sum up, it is clear that neither the growing war preparations nor the aggressive foreign policy of American imperialism brought any real economic benefits to the masses of American farmers. After 1947, the temporary gains of the war period began swiftly to vanish. The chronic crisis of agriculture was once again very much in evidence, and by the time of the imperialist intervention in Korea it had begun to reach serious proportions.

Korea: The Crisis Intensified

At its outset, American imperialism's Korean adventure was widely ballyhooed as a life saver and a guarantee of renewed prosperity for the American farmer. The greatly increased military expenditures, farmers were told, would again bring enlarged markets and higher prices for their products. Once again, the farm crisis would be banished. But these rosy dreams were soon to be shattered.

At first, it is true, an agricultural upswing did take place, lasting until the early part of 1951. From June 1950 to March 1951, farm prices rose more than 24%, while the parity ratio rose from

97 to a peak of 113 in February 1951. At that point, however, the tide was reversed, and a severe reaction set in. Farm prices plummeted, surpluses began again to accumulate at an alarming rate, and the condition of the farmers worsened rapidly. A bumper crop in 1952 only served to aggravate the situation.

By the end of 1953, farm prices in general had fallen back almost to the level of June 1950, and the prices of some commodities, notably meat animals, declined even more sharply. Farm income had fallen by nearly one-fourth from the 1951 average to reach its lowest point since the end of the war. By November 1953, the parity ratio was down to 90 and the farmer's share of the consumer's dollar to 45 cents (see Table VI).

As surpluses accumulated, government purchases and loans to support prices rose rapidly. In May 1953, the Department of Agriculture had well over $3 billion tied up in stocks of surplus farm products and price-support loans to farmers, with every prospect that within another year the total would be doubled.[20] So serious did the problem become that in 1953 the depression practice of crop acreage restriction was restored for wheat production.

Thus, the effects of the shot in the arm provided by the Korean war proved to be short-lived. To begin with, the upturn in agriculture was much smaller and of shorter duration than in industrial production, and it fell far short of the postwar peaks of 1946 and 1947. After three years of expanded war preparations, these transitory gains had been completely wiped out. The perennial farm crisis was again painfully in evidence, and the situation of the farmers was growing steadily worse.

As far as agriculture is concerned, therefore, the capitalist nostrums have apparently lost most of whatever temporary efficacy they may once have possessed. The present war economy has served only to render the plight of the average farmer more desperate than before, and in a period when military spending was steadily rising.

Nor could it be otherwise. Today's war economy offers no prospects of increased exports comparable to the periods of the two world wars. The Korean war, it is true, gave rise to an immediate jump in farm exports which, in the fiscal year 1951-

52, rose to a new postwar high of more than $4 billion. But in the ensuing year they again plummeted, falling 31% in value to their lowest point since the end of the war. And with the dwindling purchasing power of the American workers, the domestic market could not even begin to make up for this drop.

The increased military expenditures have not gone to the farmers. They have gone mostly into the pockets of the big monopolies in the form of huge outlays for expansion of plant and equipment and of juicy contracts for manufactured war goods at enormously inflated prices. For the farmers, therefore, the war economy has inevitably resulted in raising the prices which they pay far more than the prices they receive, and in continuing to raise their costs even while farm prices fell. Furthermore, the steep drop in prices paid to farmers for their produce was not reflected in a corresponding drop in the prices paid by workers for their food. According to even the understated BLS consumers' price index, food costs at the end of 1953 were about 11.7% *higher* than in June 1950. Hence the war economy has served the purpose only of swelling monopoly profits at the expense of the masses of farmers.

And again, it is the small and middle farmers who have been the hardest hit by far. The incessant increases in the costs of fertilizer, machinery and farm improvements generally have driven them still further into debt. In the three years up to the end of 1953, farm mortgage debt rose by another 26%, and non-mortgage debt by 31%. In 1952, the Department of Agriculture reported, large numbers of farmers found themselves unable to pay off their short-term credit on time, and were therefore compelled to go to land banks for longer term loans in the form of mortgages. The rate of such loans in the fiscal year ending June 30, 1952, was higher than in any previous period with the exception of the early thirties. A big price break, the report warned, would mean a heavy wave of foreclosures.[21]

If we add to this the continued inflation in land prices and the tremendous rise in the tax load during the Korean war, it becomes clear that for the small and middle farmers the present war economy has resulted not merely in the *reappearance* of the active symptoms of the chronic crisis of agriculture, but their further *intensification*.

However much the spokesmen of monopoly capital may strive to cover up the true state of economic affairs otherwise, the worsening of the farm crisis since Korea has become too glaringly evident to be glossed over. That an agricultural "recession" exists, and that the Korean war did little to relieve it, has long been generally conceded. Indeed, the persistence of the "farm problem" stands out in the view of the monopolists as a conspicuously sour note in an otherwise harmonious symphony of cash registers ringing up unparalleled profits.

How does the American ruling class propose to deal with this serious problem? On the one hand, by reducing government farm price supports and by curtailing production, particularly, as has been pointed out, through the elimination of millions of small farmers from agriculture. And on the other hand, by further increasing military expenditures and expanding the war economy. In short, by further accelerating the economic ruin of the small farmer.

The farm policies of the Eisenhower administration, under the guise of "getting agriculture back into the hands of the American farmer," are especially designed to accomplish this end. These aim first of all at a substantial curtailment of price supports; moreover, there are proposals to gear such supports not to parity but to average costs of production—a practice which would guarantee the speedy bankrupting of the small farmer. Further, they call for the complete scrapping of all federal programs of flood control, irrigation and electric power, and the undermining of the soil conservation program, together with a gigantic give-away of all types of public lands, which it is proposed to turn over to the big farmers, ranchers, lumbermen and other big business interests to despoil as they please. Such policies obviously strike at the very existence of millions of small and middle farmers.

Farmers Need Peace

Of all sections of the American people, the small and middle farmers have probably gained least from war economy. For the temporary, unstable prosperity of the two world wars, they have had to pay a stiff price in the form of the subsequent worsening of their economic position. And the present war economy, it is plain to see, is driving them deeper into crisis and ruin.

Consequently, the hope that their growing hardships can in any way be alleviated by further expansion of military spending is obviously nothing but sheer delusion. Such a course of action may bring added profits to the monopolies, and it may help to bail out a handful of big capitalist farmers, but only at the expense of the drastic deterioration of the economic conditions of the small farmers.

The booms of two world wars were based on conditions peculiar to those wars. In World War II, the growth in the domestic market was due largely to a substantial rise in per capita food consumption above the depression levels preceding the war. The present war economy, on the other hand, starting as it did from a high level of economic activity and employment, has been marked by declining food consumption. And its further expansion would result only in further reduction of civilian purchasing power and hence in further weakening of the domestic market for farm products.

In both world wars, the remarkable rise in agricultural exports was due to the fact that this country, while largely sitting on the sidelines, was supplying food to other nations actively engaged in all-out warfare. But today no such situation exists. Today the Western European nations, still laboring under the economic burdens imposed by the last war, and now beggaring themselves anew with impossible armaments budgets, are cutting agricultural imports from this country. The cold war policies of the United States, which are steadily isolating it from its Atlantic Pact allies, have as an inevitable consequence the progressive loss of markets in these countries.

Nor would a new world war, should this aspiration of American imperialism materialize, basically change the picture. In such a war it is not these reluctant satellites but the United States itself which would bear the brunt of the fighting. Moreover, it is not at all precluded that such a war of conquest, like Hitler's, might turn out to be directed *against* these very nations.

At the same time, the cold war policy on which the present war economy is founded, has led to cutting off trade almost completely with the socialist sector of the world. Obviously, intensification of the cold war and expanded war preparations can lead only to wiping out even the residue of such trade which still exists.

The present war economy is developing also under the conditions of the very high productivity of the big mechanized farms, which by themselves are able to meet greatly increased demands. "A Department of Agriculture report," the *New York Times* relates, "says the capacity of farms in the United States to produce is so enormous it can meet any foreseeable demand for food and fibers even if there is a war."[22] If we bear in mind that American agriculture was able to meet the enormous demands of World War II with only a 30% increase in output above depression levels, it should be clear that with farm output today at a higher level than even during the war, and in the face of the existence of huge surpluses, much greater demands can be met with far fewer crumbs left for the small farmers.

In fact, the expanding war economy itself would become the basis for accelerating the elimination of the small farmers. Among other things, the stepping up of the draft would result in stripping the family-size farms of manpower. This is a danger of which farmers are already acutely aware, as is manifested by their outspoken opposition to universal military training.

For the farmers, the road to war is patently the road to ruin. This does not mean, however, that they are left with no way out. There is a real alternative to war and disaster, and that is a peacetime economy based on rising living standards at home, and on peaceful, friendly and mutually beneficial trade relations with all other nations. This, and only this, is the road along which stable, growing markets for farm products can successfully be sought. And only this offers the small farmers any real basis for protecting themselves against the growing encroachments of the alliance of big business and big farmers. To defend their economic welfare, therefore, they must join hands with the working class in a struggle for their common needs, the most fundamental of which is peace.

7

WAR ECONOMY AND THE NEGRO PEOPLE

War and Negro Freedom

Some experiences of past wars, and especially of World War II, have led many to believe that war as such (regardless of what it is about) is a blessing to the Negro people, since the necessities of war production are supposed to force the white ruling class, willy-nilly, to lower the color bar and improve the economic lot of the masses of Negro workers, farmers and businessmen.

However, the fate of the Negro people in time of war is no less dependent than that of any other segment of the American people on the character of the political struggle of which the war is a continuation. Indeed, because of the super-exploitation and the national oppression of the Negro people, their economic and social status are particularly affected by the character of a war.

Because World War II was a just war on the part of the American people, a patriotic war against threatened national enslavement, its successful prosecution demanded a struggle against all forms of chauvinism and oppression, and it could not but strengthen the struggle for national liberation on every front. Hence it is no accident that in its course the Negro people, in alliance with the white workers, were able to register some important economic gains.

On the other hand, a war of aggression, a war for the domination and enslavement of other peoples, such as is being plotted on a world scale by American imperialism, can be based only on the fostering of the crassest chauvinism and the fascist ideology of the "master race," and on the intensification of national oppression on every front. Hence it is equally no accident that the present war preparations, as we shall see, tend to worsen the economic conditions of the Negro people.

The South and Wartime Migration

The South constitutes a rich preserve of American imperialism. Its economy is completely dominated by Wall Street, and from it the northern banks, insurance companies and industrial monopolies pump a golden stream of superprofits. It is a backward, agrarian region, with relatively little industry. The heart of its economy is the semi-feudal plantation system with its survivals of slavery, based on the inhuman exploitation of the Negro sharecropper. It is this super-exploitation, brutally enforced by the full weight of the Jim-Crow system, from which Wall Street's superprofits are ultimately derived.

The main effects of war economy on this pattern have been three-fold: 1. extensive Negro migration from the southern rural areas; 2. the development of war industries in the South; and, 3. increased mechanization on the big plantations, together with greater concentration of land ownership. But these are also the typical "liberal remedies" for the economic problems of the South. The accentuation of these processes in wartime has therefore encouraged illusions that war economy is a means of effecting basic alterations in the South's economy.

We shall see, however, that war preparations are no more a panacea in this respect than in any other. What Franklin D. Roosevelt once termed "the nation's number one economic problem" has not only survived the economies of two world wars, and the present armaments program as well, but has actually been aggravated by them.

Negro migration from the plantation areas of the South is not something peculiar to wartime. On the contrary, there has been a continuous, substantial flow of migration since the turn of the century. To whatever degree it has been possible for them to do so, Negro farm laborers and sharecroppers have not hesitated to leave the wretched poverty of plantation life. Ordinarily such opportunities have been very limited. Both world wars, however, created extraordinary conditions which opened the doors to extensive waves of migration.

In World War I, according to Department of Labor estimates, roughly 400,000-500,000 Negro people left the South between 1915 and 1918.[1] The destination of the migrants was the large industrial cities of the North, where the halting of immigration and the demands of the war had created a severe shortage of unskilled labor. The Negro populations of these cities grew by leaps and bounds. There was also some migration to Southern industrial cities such as Norfolk, Houston, Jacksonville and Birmingham.[2] But the development of war industries in the South was limited, and the main flow of migration was overwhelmingly to the North. The migration stopped with the end of the war as the war-created jobs folded up. But the boom of the twenties stimulated a new wave of migration even larger than that of the war period.

However, large as they were, these migrations did not result in diminishing the Negro population of the South, which continued to grow in the decades 1910-20 and 1920-30, although a slight decrease occurred in the number of Negroes living in the Black Belt, that is, in the old plantation areas of the South.[3] By far the most pronounced effect of the migrations was a marked drop in the Negro farm population. Between 1910 and 1930, the rural Negro population fell from 72.6% of the total Negro population to 56.3%; in the South, it declined from 78.6% to 68.3%. In 1910, 54.6% of all gainfully employed Negro people were farm workers; by 1930, the number had dropped to 36.1%.[4]

Although there was a temporary reduction of the surplus farm population, the migrations did not alter fundamentally the basic structure of the agrarian economy of the South. Once the acute labor shortages disappeared, the old conditions were restored within the Black Belt plantation system. The most significant result was the shifting of a very substantial number of Negro people from the farms to the big northern industrial cities, thereby vastly increasing the size of the northern Negro working class.

Following a slowing down in the depression years, mass migration was again revived during World War II. In this case, however, it was delayed for a time, and did not get fully under way until after the middle of 1942. The delay was due to the large reservoir of unemployed white workers created by the prewar depression conditions, combined with the traditional policy of anti-Negro discrimination on the part of the employers.

The World War II migration differed from that of World War I also in another, more important respect, namely in the much larger percentage of migrants who went to industrial centers in the South. "In contrast to the period of the First World War and the early twenties," Davie states, "this movement was not predominantly to the North. The migration started in the rural South but terminated in the war-boom cities regardless of geographical location."[5] Most early estimates placed the total migration at approximately one million, and many, like Davie, thought it equally divided between internal migration within the South and external migration to other parts of the country.[6] However, the 1950 Census data indicate that despite the greatly increased migration within the South, the main direction was again outward.

In the decade 1940-50, the Negro population of the United States increased by 14.7%, approximately the same rise as in the white population. But in the northern, north central and western regions, the Negro population grew by 44.2%, 50.2% and 237.4%, respectively, or many times the corresponding increases in the number of whites. The total increase in the number of Negroes in all these regions was 1,724,000. Only in the South was this pattern reversed. Here the rise in the Negro population was only 303,000 or 3.1%, as against 16.5% for the white population.[7]

Especially noteworthy were the wartime increases in the Negro populations of the main northern and western industrial centers. Thus, between 1940 and 1945, in the Detroit area the number of Negroes grew by 83,000 or 47%, in the Chicago-Gary area by 60,000 or nearly 19%, in Cleveland by 15,000 or 17%. On the west coast, the Negro population of Los Angeles shot up by no less than 59,000 or 78% and of San Francisco by 45,000 or 227%.[8]

These shifts have produced important changes in the distribution of the Negro people nationally, and also within the South itself. But two-thirds of the Negro people still live in the South, as defined by the Census, and in the six major plantation states of the old South the Negro population has not decreased.[9] Moreover, despite migration and other developments affecting the southern economy, the plantation system in its basic structure persists, even though its role in the total economy has been reduced.

What, then, is the main significance of the World War II migration? Here again, the most significant population shift has been from the farm to the city. From 1940 to 1947, the non-white rural population declined from 52% of the total non-white population to 40%. In the South, the drop was from 64 to 56%.[10] Perlo, on the basis of 1950 Census data, estimates that "in 1940 more than half the Negro people in the South were engaged in agriculture, while in 1950 perhaps two-fifths were so engaged."[11] Corresponding to this, there has taken place another spurt in the growth of the Negro industrial working class, and this time to a substantial degree in the South itself.

However, the process of urbanization has by no means done away with the surplus supply of farm labor which is the life blood of the decadent plantation economy. In the main plantation areas, even the high wartime rate of migration has not fully balanced the natural growth of the population, and it is possible that without migration on at least a comparable scale in the future, the Negro population and labor force in these areas may again increase significantly.[12] However, the current arms economy has not given rise to the acute labor shortages characteristic of peak war periods, and consequently has not encouraged migration to industrial centers to the same degree as at the height of the last war.

The wartime migrations are a part of the historical movement from farm to city which accompanies the growth of modern industry. The effect of past war booms on this process has been primarily to accelerate the rate of migration by creating a sudden demand for labor. For the Negro worker this has had a special significance. It has opened up, at least during the war boom periods, a new field of employment as a laborer or unskilled worker in industry, as opposed to the service and other menial jobs to which he had previously been restricted. And to the Negro sharecropper it has offered a greater opportunity to break away from the plantation. The growth of a Negro industrial working class is the most significant outcome of the migration. But the oppression of the Negro people under the plantation system remains as a central problem of Negro liberation and the democratization of the South.

Industrialization of the South

Among the most striking features of the South is the contrast between its tremendous industrial potential on the one hand and the relatively low stage of industry on the other.

The chief southern manufacturing industries are textiles, lumber, food products, chemicals, petroleum, and paper and its products. Together they account for nearly two-thirds of the value added by manufacture in the South and for 64% of all southern production workers.[13] In the main, these are typically low-wage industries, concerned primarily with extraction of raw materials or the processing of semi-manufactures, and concentrated mainly in the production of non-durable goods. Southern industry is weak in the output of basic durable goods, not only of primary metals but even more of fabricated metal products. There is virtually no production of machine tools, and little more of machinery in general.

The decisive part of southern industry is owned or controlled by the biggest groups of northern finance capital, whose superprofits are based on keeping the South industrially backward.[14] Hence, whatever industries have migrated there in recent times have been confined chiefly to the fields already predominant, and have been largely "runaway" industries, such as textiles, in search of unorganized, cheap labor. The development of durable goods industries remains restricted, concentrated mainly in the Birmingham area.

There is a widely prevalent illusion that war economy, through the expansion of war production industries, provides a means of breaking through the barrier and bringing about greater diversification of industry. Many confidently assert that the dispersal of industry called for in the present war program will mean the industrial salvation of the South. But such dreams are entirely unfounded; war economy does not change the character of monopoly capital in this respect any more than it does in others.

Aside from shipbuilding, World War I witnessed but a very limited development of war industries in the South. It was only in World War II that extensive industrial expansion occurred. But this wartime expansion differed greatly in character from that in other industrial areas of the country.

During the war, a total of \$4.6 billion was spent on plant expansion in the South. But of this, only 21% was privately financed, in contrast to 37% for the rest of the country. Moreover, the amount spent by the armed services on military installations and public housing connected with them—about \$4.8 billion—was greater than the total expenditure on plant expansion, both public and private.

Manufacturing employment in the South rose from about 1,650,000 in 1939 to a high point of 2,835,000 in November of 1943.[15] This is an increase of roughly 70%. In numbers, however, it is a rise of less than 1.2 million workers in manufacturing; and even at its peak, the total number was less than 15% of the labor force, a proportion substantially lower than in the rest of the country.

Of particular significance is the *type* of expansion which took place. This is aptly described by Deming and Stein in the following words:

> The pattern of war manufacturing facilities expansion in the South was a great deal different from that in the entire country, and generally speaking the differences were not favorable to the South. The industries which had more sound reconversion possibilities and those which would aid particularly in further industrialization accounted for a relatively small part of the industrial expansion program in the South. Of the total value of war manufacturing awards in the South, less than 1% was in plants to turn out vehicles, and barely 1% in machinery and electrical equipment plants, in contrast to 4% and 5%, respectively, for the nation as a whole. Only 4% of the South's expansion (in value) was in iron and steel, in contrast to a national figure of 9%. On the other hand, 20% of the southern states' value of war facilities awards was in the explosives and ammuni-

tions lines, and 31% in the chemicals line (which included synthetic rubber, aviation gasoline, and other chemicals and products of petroleum and coal) as against 11% and 14%, respectively, for the United States. In general, the explosives and certain chemical plants have major reconversion handicaps, plus the fact that many are held in standby condition by the government and hence cannot be classed as actual additions to the industrial plant of the area anyway.[16]

Ammunition and explosives, shipbuilding and guns—it was such ephemeral "war babies" that constituted the heart of southern wartime industrial expansion. Unstable as the base of the war boom was in the country as a whole, it was doubly unstable in the South.

After the end of the war, following the reconversion period (in the South chiefly a *demobilization* period), the southern states had a share in the economic upturn of the immediate postwar years. But so far as its composition was concerned, by 1947 southern industry was about back to where it had been before the war. During the war, the proportion of workers employed in durable goods manufacture rose from 31.8% to 53.4%, but by 1947 it had dropped to 35%. Before the war, the six leading southern industries accounted for 63.1% of the total value added in all southern manufacture and for 69.8% of all production workers. In 1947, these figures were 63.1% and 63.9% respectively—not greatly different from the prewar picture.[17]

Hence the World War II economy, although it had a considerable impact on the South, did not basically change its one-sided industrial pattern. The South served as an industrial reserve region for monopoly capital, to be called into play at the height of war production, and then only in those branches which were most temporary.

Nevertheless, the wartime expansion of industry was not entirely without benefit to the working people of the South. By providing an outlet of escape from the plantations, it undoubtedly helped to ease the burden of poverty. In addition, an appreciable accumulation of local capital was fostered, and with it the growth of a local class of small capitalists, taking pride in the industrial development of the South and fighting to extend it. But these developments, important as they were, did not warrant the conclusion that the grip of monopoly capital and of the plantation owners on the South had been loosened. Nor did they warrant the postwar flood of glowing predictions of future expansion which would make the South one of the nation's leading industrial centers. It was already clear in 1947 that such predictions would not materialize, and the current war economy, especially since Korea, has made it even clearer.

Today's permanent war economy is founded on a vast program of plant expansion, centered around the construction of war industry plants to be operated, not on an immediate emergency basis as in the last war, but on a *permanent* basis. It is certainly not likely that plants of this type will be built in the South in great numbers. Nor is the federal plant dispersal program, on which middle-class liberal supporters of the Wall Street war program place such high hopes, designed to bring industry to the South.

The dispersal program, initiated by executive order in August 1951, was intended ostensibly to protect industrial plants from possible bombing in the event of war (although actually this was by no means the only or even the main motivation). As worked out by the National Resources Security Board, it called for dispersion only of new plants and industries, and for confinement of their deployment *within each local marketing area.* Dispersion, therefore, meant only that new plants were to be built, not in the heart of an existing industrial center, but in some outlying, nearby community. For example, instead of constructing new automotive plants in Detroit, these were to be situated in surrounding smaller industrial cities and towns. The program decidedly did *not* mean that new plants and industries were to be shifted to new geographical regions.

Hence, the dispersal program did not, in general, decrease the concentration of industry in existing centers; if anything, it increased concentration still more. Thus, in January 1952, *U.S. News and World Report* observed: "The industrial map of America is not being changed by the arms program. States that do most of the country's manufacturing are also getting most of the Government's defense contracts. . . . *There is little evidence that the arms program is being used for the purpose of* *developing industries in new areas.*"[18] (Emphasis added.)

Of the total dollar value of arms contracts placed by the beginning of 1952, the magazine reported, 87% went to 15 leading industrial states which, in 1947, accounted for 79% of the nation's manufacturing activity. On the other hand, the South Atlantic states, which contributed 9.3% of the country's manufacturing output in 1947, received only 7% of the dollar value of contracts. Of all the southern states, Texas alone showed a marked increase in relation to its 1947 volume of output.

Clearly, this does not point to a significant shift of basic industry to the southern states. On the contrary, the main effect of today's war preparations is to shift the industrial balance still further against the South. Only in the event of the expansion of war production to all-out proportions would this area be brought more fully into play as Wall Street's industrial reserve region.

Significantly, aside from the utilization for war production of existing facilities, and the expansion of the chemical and refining industries in Texas, the chief new development of basic war industry in the South has been the manufacture of atomic bombs, with major centers at Oak Ridge, Tennessee, Aiken, South Carolina, and other localities. In the atmosphere of repression and Jim Crow surrounding these centers of production for death, we have a foretaste of what a growing war economy really holds in store.

In its drive for world domination, aimed at extracting ever greater super-profits on a world scale, it is only natural that American imperialism should strive especially to maintain inviolate its biggest single source of super-profits, the industrially backward South. Hence, the ties between Wall Street and the most reactionary Dixiecrat elements are being steadily drawn closer, a trend which was strikingly manifested in the 1952 election campaign with its open, unashamed wooing of the poll-tax Bourbons by both major parties. The tightening of this unholy alliance plainly augurs only growing exploitation and Jim-Crow oppression of the people of the South as the fruit of expanding war preparations.

In striving to hold back the development of industry in backward areas imperialism seeks to prevent a natural process of economic development. In spite of everything, however, some industrial development does occur in such areas, and in time of war the exigencies of military production tend to accelerate the process. But so long as they maintain control, the imperialists are able to confine this growth mainly to temporary or secondary industries, and to keep intact the backward, one-sided pattern of industry. Furthermore, whatever war-inspired industry develops in a Jim-Crow South is Jim-Crow industry, with Negroes practically excluded from all but the very worst jobs. The textile industry, despite its recent growth, has fully retained its lily-white character. And in the atomic bomb industry, anti-Negro discrimination exists in an especially pronounced degree. The growth of industry along such lines, Abner W. Berry points out in his observations on a southern tour, only fosters white supremacism and anti-Negro terror: "Far from decreasing the activity of the anti-democratic terror gangs, the steady influx of run-away industries into the South is bringing with it a revival of sheeted mobs whose mass murder of Negroes accompanied the historically illicit union of industry and semi-feudal racism. As the du Ponts open more and more synthetic textile plants in eastern South Carolina, along with their government-built hydrogen bomb plant near Aiken, the Klan gets bolder in that part of the state also."[19]

Thus, the fight for a genuine modern industrial base in the South is intimately bound up with the struggle for Negro liberation, a struggle directed against American finance capital and against its schemes for the enslavement of other peoples. It must therefore be based, not on illusions about "solving" the South's economic problems by way of crumbs from preparations for an atomic war, but rather on opposition to such a war, on

The Plantation System

Without doing away with the semi-feudal plantation system and Jim-Crow oppression, it is futile to talk about a genuine solution of the economic problems which increasingly plague the people of the South. In view of this, it is especially noteworthy that this system has survived two world wars.

With its backward and wasteful mode of farming, the South has been especially hard hit by the chronic crisis of agriculture. The problem of markets and production costs have been persistently much more acute here than in other farming regions. In the thinking of the liberal reformers, the solution of these problems lies in the modernization of southern agriculture, in the mechanization of its farms. But the plantation form of agriculture, with its abundance of cheap, unfree labor tends to make mechanization unprofitable, and leads the plantation owner rather to cut costs by intensifying the exploitation of the sharecropper. To be sure, in war periods mechanization has received a special stimulus from the increased demand for agricultural products and the simultaneous reduction of the labor supply. But even under such circumstances, the mechanization of farming in the South had lagged far behind that in the rest of the country.

The great migration of World War I did not deplete the surplus labor supply, and there was little mechanization. During this period, the economic status of southern Negro farmers was distinctly worsened. In the 1910-20 decade, the percentage of Negro farm operators who were tenants showed little change, rising from 75.3 to 76.2. But the percentage of *cash tenants* declined from 29.3 to 10.9, while the percentage of other tenants (mainly sharecroppers) rose from 46.0 to 65.4. Similarly, the proportion of Negroes among all cash tenants dropped from 57.6 to 44.8, while the proportion of sharecroppers increased from 38.7 to 44.0.[20] It is evident, therefore, that in this decade the tenure status of the southern Negro farmers was worsened. A substantially larger proportion, both in relation to white operators and to total Negro operators, were reduced to the status of sharecroppers. And the indications are that much of this deterioration occurred during the war period.

In World War II, a new mass exodus from the farms of the South took place, and a shortage of agricultural labor again developed. During this period, however, in line with the nationwide trend, there occurred a considerable mechanization of southern farms. From 1940 to 1948, the number of tractors almost tripled, rising from 258,600 to 679,000. In South Carolina, Georgia, Florida, and Alabama the number almost quadrupled, while in other states it was nearly doubled.[21]

Despite these increases, the South still lagged far behind the rest of the country. In 1945, only one southern farm in seven had a tractor, compared to better than one in every two elsewhere. In Mississippi, only 11% of all farms had tractors; these, moreover, were confined chiefly to the very large plantations. Of the single unit farms, only 4.5% had tractors, and of the smallest plantation-type cropper farms only 11%. But of the largest such farms, 64% were equipped with tractors (and even here 36% still relied solely on the mule and horse for traction power).[22]

Thus, the accelerated rate of mechanization in World War II, though impressive in comparison with the depression years preceding the war, was not enough to overcome the relative backwardness of southern agriculture. Most of the plantations still remained without a single tractor. And the plantation system itself remained the dominant form of cotton and tobacco agriculture.

Nor did the war improve the economic status of the Negro farmer. From 1940 to 1945, the total number of tenants in the South, both Negro and white, declined by about 284,000 and the proportion of tenancy among all southern farm operators by roughly 7%. At the same time, the number of full and part owners increased by about 158,000 and the proportion of ownership by nearly 8%. Among Negro operators, however, both the drop in tenancy and the increase in ownership amounted to no more than 3%. In relation to the total number of owners, Negro ownership shows no increase, while the Negro share in tenancy of all types rose by roughly 20%. Hence the gap between the economic status of Negro and white farmers was markedly increased during the war. And in 1945, the category of sharecroppers still included more than 60% of southern Negro farm operators.

But this tells only half the story. The mechanization which has occurred in the South, though relatively limited, is by no means insubstantial. And in recent years it has been stimulated also by the competition offered by the growing number of big mechanized cotton farms in the West, which now supply the major part of the nation's cotton crop.

Taking place as it has within the framework of the plantation system, mechanization in the South has meant first of all the growing displacement of sharecropper units, and the conversion of sharecroppers into rural laborers hired only when needed to do work, as in cotton chopping, which is not yet mechanized, and left to shift for themselves at other times. These croppers and their families are thus driven off the land to eke out a living as best they can. This, and not any improvement in tenure status, is the real explanation of the decline in farm tenancy noted above. And this is especially true in the case of Negro farmers, among whom the proportion of owners, compared to that among white farmers, is very small.

In addition, the rising number of large, mechanized farms in the South places the small farmer generally at a growing disadvantage and hastens his ruin. The result has been the growth of concentration in ownership at an accelerating pace, much more marked than in the rest of the country. The *New York Times,* reviewing the 1950 Census figures, points out: "A combining of acreages and decrease in the number of farms operated by tenants was particularly noticeable in the South, which accounted for almost half the total decrease in farms. Of the southern decrease, almost half resulted from the decline in the number of farms operated by sharecroppers."[23]

At the other end, the squeezing out of small farm owners and tenants has given rise to a growth in the number of dwarf farms, operated on a subsistence or part-time basis.[24] Meanwhile, the non-mechanized plantations have striven to meet the sharpening competition from mechanized farming simply by intensifying the exploitation of the sharecroppers still more. Hence, far from solving the burning agrarian problems of the South, mechanization has merely served to aggravate them.

The effect of World War II was to accelerate this process. In the subsequent period of the cold war, with the re-emergence of the chronic farm crisis, the process has been accelerated still more, especially in the case of the Negro farmers. According to the 1950 Census, in the six main plantation states

(North Carolina, South Carolina, Georgia, Alabama, Mississippi, Louisiana), the number of Negro sharecroppers and other share tenants dropped 17% between 1945 and 1950. At the same time, the number of part owners, managers and cash tenants dropped 9%, and the number of full owners 4%. While the total farm area in these states rose by 8 million acres between 1945 and 1950, the area of farms occupied by Negro operators declined by 3 million acres or 14%.[25] Negroes have been losing land at a rate double that of the prewar period and considerably higher than that of the war years.

It is thus vain to see in war preparations the means of loosening the stranglehold of the plantation system, of modernizing southern agriculture, and of solving the economic problems of the small farmers, sharecroppers and agricultural laborers. If the poor farmers generally have nothing to gain from war economy, this is doubly true of the southern, and above all of the Negro poor farmers.

At the heart of the South's economic problems is the land question. It can be solved only on the basis of ownership of the land by those who till it—on the realization in modern form of the unachieved slogan of "forty acres and a mule" of Reconstruction days. Only this can destroy the hated sharecropper system and end the abysmal poverty of the South's rural masses. It can halt the destruction of the soil through one-crop farming, and lay the foundation for real mechanization and modernization of agriculture, thus paving the way for the flowering of all-around modern industry in the South.

Land to those who till it means first and foremost land to the masses of Negro sharecroppers and rural toilers in the Black Belt. And this means wiping out the whole pattern of Jim-Crow oppression so assiduously and tenaciously maintained by the coalition of southern Bourbons and northern finance capitalists. Once more we see that it is a struggle inseparably wedded to the fight for peace.

The Negro in Industry: World War I

The outbreak of the first world war resulted in cutting off the stream of European immigrants on which the American capitalists had long relied as a source of cheap, unskilled labor. Negro workers were now brought North to fill the types of jobs formerly relegated to the Italian, Polish, Croatian and other Eastern European immigrants, to do the hard, dirty and poorly-paid manual labor for which at the moment no other workers could be found. And others, in equal numbers, stepped into the even more poorly-paid service and domestic jobs which white workers were deserting for better jobs in war industries.

According to Woodson, fully 90% of the wartime Negro workers were confined to unskilled labor, with no more than 10% in semi-skilled and skilled work.[26] Northrup shows that between 1910 and 1920 the percentage of Negro workers in skilled trades and in occupations like railroading generally increased little or not at all. The main growth occurred in fields such as longshore and steel, and in special war industries like shipbuilding.[27]

Moreover, like the foreign-born workers before them, the Negro workers were hired at lower wages than others for the same work. Double wage scales for Negro and white workers became a common practice, more or less openly sanctioned. In Pittsburgh, for instance, wage rates paid to Negro workers in some jobs were 35% and more below the prevailing union wage scales; even when fixed by government contracts, wages of Negro workers were 8% to 10% lower than of whites doing the same work.[28]

Although such wage differentials threatened to undermine existing wage standards, and hence often aroused considerable hostility among white workers, still there were few struggles or even demands for equal pay for Negro and white workers. The white supremacist concept that Negroes should be paid less was widely accepted, generally with the sanction of the AFL.

The ruling class did all in its power to foster such supremacist attitudes, to keep Negro and white workers apart and hostile by incessantly building the wall of white chauvinism and race hatred. The Negro worker, when he came North, found Jim Crow there also. It produced the shameful Negro ghettoes which mar every northern industrial city, and the pattern of discrimination which restricts the Negro to the worst jobs at the lowest wages.

These were the conditions during the war under which masses of Negro workers obtained their introduction to American industry. And when the war boom ended, the Negro workers were, of course, the first to be fired. In 1921, when depression conditions set in, Negro unemployment rose rapidly. In Detroit, where Negro men constituted 5% of all male workers, they made up no less than 16% of the unemployed.[29]

The principal gain achieved by the Negro workers in World War I was that they succeeded in obtaining a precarious foothold in industry. However, they remained on its fringes, an industrial reserve used by monopoly capital only in periods of peak production. In the 1929 crash, they were left almost completely jobless. And at all times they were regarded by the big capitalists as a club to be held over the heads of the white workers.

Economic Gains in World War II

The second world war witnessed a record-breaking expansion of Negro employment in industry, both with respect to numbers of workers and kinds of jobs. In 1940, nearly a million Negroes were unemployed, including those on emergency work programs; by 1944, this army of jobless had been almost completely absorbed. In the same four-year period, the exodus from farm to factory reduced the proportion of the employed male Negro labor force on farms from 47% to 28%. In the manufacturing and processing industries, employment of Negroes increased from about 500,000 in 1940 to 1,250,000 in 1944.[30]

This extensive absorption of Negroes into wartime industry did not begin with the onset of the war, being delayed until the huge backlog of unemployed white workers was used up. At the beginning, employment of Negro workers was restricted almost entirely to replacement of whites in service occupations and to the types of unskilled labor customarily relegated to Negroes. Between early 1940 and March 1942, the United States Employment Service reported, although Negro placements in jobs were 20% of the total, in 18 war industries they averaged only 3% of white placements, and in some (such as aircraft) only 1%.[31] And in the spring of 1942 the proportion of Negroes among unemployed workers was higher than two years before.[32]

Only in late 1942 and in 1943, when white manpower reserves were practically exhausted, and when employers could find no other alternative, did the color bar really begin to bend. The Negro worker, in the World War II employment boom, was truly "last hired."

Nevertheless, some important advances were registered during the war, especially in the employment of Negroes in skilled and semi-skilled jobs. From 1940 to 1944, the number of Negroes employed as skilled craftsmen and foremen doubled, as did the number employed as operatives (semi-skilled workers). Among Negro women, the number thus employed nearly quadrupled. By 1944, the total number of Negro workers in these categories had risen from 500,000 to 1,000,000.[33] There was also an appreciable, though much smaller increase in employment in clerical and other white collar jobs, especially among Negro women. On the basis of a detailed study of the question, Perlo concludes that during the war, on the whole "the Negro people achieved absolute economic and social gains and made advances relative to the population as a whole."[34]

The gains of the World War II period obviously go far beyond those of the first world war. But it would be totally wrong, as has been pointed out, to regard this as being due solely to the existence of a more acute shortage of manpower in World War II. The greater gains were primarily the result of conditions and struggles peculiar to this war, and which could not possibly have developed in the earlier war of imperialist aggrandizement.

Victory in the anti-fascist war required the rallying of all forces of democracy and progress, including the Negro people. This created favorable conditions for such things as the development of a fair employment practice policy, which already took form even before the United States entered the conflict. On July 18, 1941, President Roosevelt issued his notable Executive Order 8802, which declared it to be the policy of the United

States "that there shall be no discrimination in the employment of workers in defense industries or Government because of race, creed, color, or national origin." He set up a Committee on Fair Employment Practice to enforce the order. In the five years of its existence, the Fair Employment Practice Committee successfully settled almost 5,000 cases of discrimination, including 40 strikes.[35]

Furthermore, the advent of World War II found in existence a vastly strengthened labor movement, the fruit of the great organizing drive of the thirties, with a new, powerful national center of progressive trade unionism embodied in the CIO. The growth of industrial unionism in the thirties was made possible in large measure by the development of a Negro-labor alliance —by the abandonment of the Jim-Crow policies characteristic of the old-line AFL unions and the uniting of Negro and white in joint struggle for the welfare of both.

As a result, there took place a tremendous growth of union membership among Negro workers. As early as 1940, about 1,500,000, comprising some 30% of the Negro labor force, were employed in unionized industries. Of these, roughly 600,000 were union members, and by 1945 the total had grown to an estimated 1,250,000.[36] This was a far cry indeed from the state of affairs at the time of World War I.

The Negro people, in alliance with the progressive sections of the labor movement, were able to win some important victories in the struggle for equal rights. In general, CIO unions fought vigorously against discrimination in hiring, upgrading, and wage rates, a fight in which some of the AFL unions also joined at times. The Negro-labor coalition was instrumental in winning the establishment of the wartime FEPC. And once established, its activities were given the fullest support. A number of unions entered into formal agreements of cooperation with the Committee in furtherance of the aim of ending discrimination.

Of special interest is the struggle against wage differentials. As in World War I, double wage scales were not at all uncommon when the war began. In Chicago, for example, in 1939 and 1940 the practice was widespread of employing Negroes as semi-skilled, skilled and technical workers at rates much lower than for whites.[37] The same is true of other industrial centers, and especially in the South.

This time the practice was fought. Large numbers of cases were taken before the National War Labor Board, which ordered the employers to pay equal wages for equal work and, in one instance, sharply denounced discrimination in wage rates as "in line with the Nazi program."[38] Many other forms of struggle were also successfully employed. Though these struggles were far from successful in eliminating all wage differentials, some real gains were made. The most important point is that instead of accepting a policy of double wage standards and permitting the employers to turn white and Negro against one another, a decisive section of organized labor vigorously fought against it. Yet, even these gains, the fruit of militant struggles waged in the context of a just war, were limited, and the pattern of discrimination continued.

To begin with, the employment of Negroes was concentrated in industries such as shipbuilding, ordnance manufacture and aircraft production—strictly wartime industries with little chance of conversion to peacetime production after the war. As the BLS study cited above put it, "the Negroes' greatest employment advances have been made in precisely those occupations, industries, and areas in which the postwar adjustment will be most severe." In addition, in 1944 one in every five Negro men was still employed as an unskilled laborer, the same proportion as in 1940, and during this period the proportion of Negroes among all non-farm unskilled laborers rose from 21.0% to 27.6%. At the same time, nearly 29% continued to work on farms.[39]

As for Negro women, while the percentage employed as service workers fell somewhat, in 1944 more than two out of three were still employed in service occupations, and nearly one of every two in domestic service. Moreover, between 1940 and 1944 their proportion among all domestic service workers rose from 46.6% to 60.9%, and among all workers in other service occupations from 12.7% to 23.9%.[40] In other words, Negro women were far less able than white women to escape from these undesirable occupations, and their position relative to other women workers was therefore considerably worsened in the course of the war.

In clerical and sales occupations, the proportion of Negro women in 1944 was still no more than 1.4%. And here, as Perlo observes, whatever advances were made in employment were accompanied by a deterioration in the economic status of such white-collar jobs. Employers turned to Negro workers to fill these jobs because, thanks to the lagging of wages in white-collar occupations behind those in industry, these were now among the lowest-paying jobs.

With regard to the relative earnings of Negro and white workers, the available data for the war period are rather inadequate. Perlo states, however, that while the gap between the annual incomes of Negro and white families was narrowed somewhat in the South, there was no conclusive evidence of any such narrowing in the North.[41] When we add to this the fact that the living costs of Negro workers increased much more than those of white workers, it becomes clear that the negative impact of the war economy on real wages was undoubtedly much greater for the Negro industrial worker than for the white worker. This, of course, tended substantially to offset and reduce gains made through employment in better-paying jobs.

Finally, the limitation of the wartime gains of the Negro workers within the bounds of the Jim Crow pattern, is nowhere more clearly demonstrated than in respect to housing. Here the pattern of discrimination remained virtually untouched. The effect of the extensive cityward migration was to crowd the Negro people still more into the already greatly overpacked ghettoes, from which there was almost no outlet. To be sure, there developed a general housing crisis, affecting all sections of the working class. But the significant fact remains that while some means of alleviation were found for whites, almost nothing was done to ease the desperate plight of the Negro urban populations. Literally *no* advance was made in cracking the Jim-Crow ghetto system.

All in all, says Haywood, the war boom "forced a temporary breach in the bastion of job Jim Crow. . . . The precarious beachhead to industrial opportunity was widened. The 'job ceiling' was slightly raised. . . . But the pattern was not broken."[42]

Postwar Decline

Because no permanent break was made in the wall of economic discrimination, many of the wartime gains were lost. At the end of the war, with the disappearance of the acute labor shortage and as the war industries folded up, the Negro worker, last hired, was once again first fired. A Census Bureau survey showed that between June 1945 and April 1946, while unemployment among whites increased about one and one-half times, among non-whites it more than tripled. Summing up these developments, the Report of the President's Committee on Civil Rights, issued in 1947, says:

> In private industry, minority workers were heavily concentrated in war industries, which since the end of the war have suffered drastic cutbacks. In other industries the termination of manpower controls has encouraged some employers to resume prewar policies of exclusion or discriminatory treatment of minority workers. The first sentence in the summary of the FEPC Final Report bluntly observes that "the wartime gains of Negro, Mexican American, and Jewish workers are being lost through an unchecked revival of discriminatory practices."[43]

The extensive and disproportionate downgrading suffered by Negro workers in the immediate postwar period is strikingly shown by the statistics of the U.S. Employment Service on the distribution of employed Negro workers in 1944 and 1947. These show a distinct decline in the concentration of Negroes in the relatively high-paying metal, chemical and rubber group of industries, and an equally distinct rise in their concentration in the group including the low-paying industries in which Negroes have traditionally been employed. In the 1948-49 economic slump, with its sharp rise in unemployment, the Negro workers were especially hard hit. From April 1947 to April 1950, total manufacturing employment fell 7%, but the proportion of Negroes employed in manufacturing fell about 20%. In various industrial cities, reports showed Negro unemployment ranging from 20% of the total in New York to as high as 50% in Toledo and Chicago.[44]

By 1950, the disproportionate burden of Negro unemployment characteristic of prewar years had been fully restored. In April

1940, Negro men held 8.6% of all male jobs. In 1944 this figure reached a high of 9.8%, but in 1950 it was no more than 8.3%, although the proportion of Negroes in the total population remained about the same. Census Bureau figures show that in northern cities in 1950, 14.2% of Negro men were unemployed, compared to 5.7% of white men, and 9.2% of Negro women as against 4.4% of white women. In southern cities the differential was somewhat smaller, but none the less sharply defined.[45] And it must be remembered that Census Bureau unemployment statistics, which grossly underestimate unemployment in general, tend to do so to an even greater degree among Negroes than among whites.

In the postwar period, the Negro people also suffered a severe loss in earnings and living standards. In 1945, the median annual income of all Negro families and individuals was 51.9% of white families and individuals. In 1949, it had fallen to 47.0%. For urban families and individuals, the corresponding figures are 59.9% and 51.3%, an even greater drop. In fact, the Negro median annual income in 1949 was $28 less than in 1945, and this in the face of skyrocketing prices during these years. Hence the real income and living standards of Negro families have undergone pronounced deterioration, far greater than among white families. Thus, for white urban familes the index of real median income dropped from 100.0 in 1945 to 86.8 in 1949, a decline of about 13%. But for Negro families the index fell to 74.3 in 1949, *a decline of nearly* 26%.[46] Obviously, this represents a drastic fall in purchasing power.

The worsening economic status of the Negro workers is manifested also in the continued deterioration of housing in the postwar period. Despite the enormous increase in the Negro population of the big industrial cities during the war, the Negro people have remained rigidly confined to the enormously overcrowded ghettoes. While the housing shortage for white families has been at least slightly relieved through new construction in the postwar years, construction of new housing available to Negroes has been infinitesimal. By 1950, crowding among Negro families was four times greater than among whites. And since 1945, the already crumbling firetraps, with their ever-greater burden of tenants, have been allowed to deteriorate to a degree which literally defies description. For this abominable housing, moreover, Negro families have been forced to pay greatly increased rents. Between 1940 and 1950, median rents paid by non-farm families rose about 60%; those paid by Negro families, however, rose 150%.[47]

It is quite clear, therefore, that by 1950 many wartime gains of the Negro workers had generally been lost. In a number of important respects, the Negro people found themselves not only worse off than at the end of the war, but *worse off even than they had been in* 1940.

The gains of the past decade, however, have not been completely wiped out. The outbreak of the Korean war found the Negro workers still with a broader base of industrial employment than they had prior to World War II, especially in certain departments and job classifications in basic industries like steel and auto, as well as in certain building trades (chiefly as laborers). In particular, they are more firmly entrenched in that substantial numbers have succeeded in accumulating considerable seniority in these fields. But the continued postwar resurgence of discrimination threatens to erase even these gaines.

The postwar decline cannot be ascribed simply to the absence of a full-scale war economy, any more than the wartime advances could be ascribed merely to the existence of such a war economy. As a matter of fact, the decline took place in a period of steadily rising military expenditures and of a comparatively high level of employment. The real reasons must be sought in the basic reversal of foreign policy which occurred at the close of the war, in the change from the Roosevelt policy of world peace to the reactionary, aggressive, bipartisan cold war policy espoused by the Truman administration.

The postwar deterioration of the economic status of the Negro people is but a demonstration of the fact that a program aimed at the domination and colonial enslavement of other peoples can lead only to greater oppression and exploitation of the Negro people in this country. The attack began soon after the war's end with the abolition of the President's Fair Employment Practice Committee, which breathed its last on June 30, 1946. Its demise was hastened by Truman himself when, in November 1945, he directly countermanded an order the Committee had issued to the Capital Transit Company in Washington, D. C., to cease discrimination in the employment of Negroes.

Nor, despite all the demagogy on civil rights which has been spewed forth since then, has there been any serious effort whatever to establish a federal FEPC. In contrast to the forthright measures taken by President Roosevelt during World War II, the only action taken by Truman was the establishment by executive order, after the outbreak of the Korean war, of a "Committee on Government Contract Compliance," an utterly impotent body which could only report cases of discrimination and did not even have the power to hold hearings. This was clearly nothing but a shabby, demagogic trick, so transparent that it fooled no one, and least of all the Negro people.

By the time of the 1952 elections, neither major party felt it necessary any longer even to offer lip service to the demands for a civil rights program, and each openly flaunted its refusal in the faces of its Negro supporters. And Eisenhower himself has since done nothing more than to re-establish the same kind of toothless, ineffectual committee on contract compliance as set up by Truman.

Likewise, the support given by top labor leaders to the imperialist war program has led to serious retreats in the struggle against discrimination and to the marked disintegration of the Negro-labor alliance of the thirties and the war years. For the most part, only a handful of unions under progressive leadership —unions which, on the whole, have taken a stand for peace— have attempted to maintain a consistent struggle for Negro rights.

Today's War Economy

Under these circumstances, nothing could be more futile than to expect the current war economy to bring real benefits to the Negro workers. In fact, after nearly two years of the Korean war, their relative economic status showed little if any improvement. In April 1952, the BLS reported: "As in past periods, unemployment rates for nonwhite workers in the first quarter of 1952 were substantially higher than for the white work force. About 6% of nonwhite workers were unemployed in the first quarter—twice the percentage of job-seekers among whites."[48] Thus, the disproportionate burden of Negro unemployment has not been reduced, and has remained at the prewar level. Nor has there been any trend toward expanding the range of jobs for which Negroes are hired. The picture is summarized in a report by the Urban League in early 1952, which states:

> Discrimination against Negroes follows a uniform pattern in plants located in northern and southern industrial centers. As the work force expands, a few Negroes have been added to the maintenance and common labor group of workers. Negroes are rarely accepted for in-plant training programs in any of the communities studied by League personnel. The employment of Negroes in white-collar, administrative, and technical jobs in those expanding industries is practically unheard of. In those communities where new plants are being constructed for defense production, it is almost impossible to obtain any statement of policy with respect to the utilization of Negro personnel.

The report concludes: "Unless drastic steps are taken to curtail discriminatory employment practices in the majority of the nation's industries having defense contracts, there will be very few Negro workers in the manpower mobilization program."[49] More recently, with the rise in unemployment, discrimination has grown. In January 1954, according to Census Bureau figures, unemployment among Negro men was double that among whites.

It may be argued in some quarters that these are features of a limited war economy in which there is no acute manpower shortage, and that in a full-scale war economy, such as would materialize in the event of a third world war, the employers would again be forced to hire Negro workers as they did at the height of World War II. However, aside from the lunacy of depending on a perpetual state of all-out war production as the means of providing jobs for Negroes, it does not follow at all that the conditions of the last war would be repeated in a new world war.

A third world war could arise only as a war of aggression and conquest on the part of American imperialism. Such a reactionary war would inevitably be accompanied by a tremendous intensification of the drive toward fascism at home, with all its chauvinist and racist trappings. The inseparable counterpart of a war to enslave colored peoples abroad is the fostering of the "master race" ideology at home. And its chief victims would be the Negro people.

The mere need for manpower would produce no change in the racist, genocidal policies of American imperialism, any more than it did in Nazi Germany. True, in the event of a total war mobilization, the demand for manpower might well become so great as to bring about a new influx of Negroes into industry on a large scale. But in such a war, Negro workers would find employment, not in the conditions of World War II, but in conditions of slave-like exploitation and savage persecution. They could look forward to employment in only the worst, lowest-paying jobs, and in the end to being reduced to the status of industrial slaves.

To be sure, a number of gains have been registered in the fight against discrimination in recent years. There have been some notable local successes in breaking down job discrimination in one or another enterprise. In some states, and in a number of cities and towns, fair employment practices legislation has been adopted. And the requirement that anti-discrimination provisions be included in all federal government contracts is itself an important development. But these gains have been won only through determined mass struggle in the face of indifference, opposition, or outright sabotage on the part of the protagonists of the cold war—that is, *despite* the war program and not because of it. And their enforcement and extension can be assured only by further struggle along the same lines.

The Negro working class has developed into a powerful, politically advanced force, which has increasingly assumed leadership in the struggle for Negro rights. In the past few years it has shown a rising degree of militancy and organized leadership, which have been instrumental in winning whatever successes have been registered. It is a force which has shown itself capable, in alliance with its white working-class allies, of waging an indomitable struggle for equal rights. But it is clear that Negro-white unity and the full revival of the Negro-labor alliance, which is the key to success in this struggle, can be effectively achieved only on the basis of fighting for peace. This is already recognized by a substantial and growing section of the Negro workers; hence it is not at all accidental that in the struggle for peace the Negro working class plays a prominent role.

8

WAR AND CYCLICAL CRISES

War Economy and the Economic Cycle

How does war economy affect the boom-and-bust cycle inherent in capitalist economy?

The most obvious immediate effect of large-scale military expenditures is to give an artificial stimulus to production through war orders. In the conditions of a maturing cyclical crisis, this serves for a time to hold off its onset and to mitigate its symptoms. This is accomplished, however, only by further sharpening all the contradictions of capitalism and thereby paving the way for a far more devastating crisis. War economy does not halt the maturing of a crisis; it only alters the *form* of its maturing, and in such a way as to render its ultimate outbreak all the more violent.

War serves to lessen the impact of a crisis of overproduction by virtue of its very destructiveness. Aside from the outright demolition brought about by actual warfare, war production as such is pure waste. It is a means of destroying goods and productive facilities as effectively as if they were dumped into the ocean or burned, or as if plants and machinery were dismantled and sold for junk or simply left to crumble and rust. For war goods have no utility whatever, except to encompass further destruction, both of human lives and the products of human labor.

Such "enforced destruction of a mass of productive forces," Marx and Engels long ago pointed out in the *Communist Manifesto,* is a traditional means by which the capitalist class seeks to get over economic crises.[1] War is the sharpest and deepest form of this destruction. But how does this method of overcoming crises operate? As the *Manifesto* states, only "by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented."

War, however, is distinguished by one crowning insanity: The resources of the nation are put to work turning out vast quantities of goods intended solely for destruction. A nation plunged into all-out war finds itself suddenly confronted with an overwhelming demand for unlimited quantities of every conceivable type of war goods. A mad whirlwind of war production ensues, with everything thrown into the breach. The "war boom" is on. But nothing suffices. There develop mounting shortages of manpower, of raw materials, of machinery—in short, of everything. And as the war progresses, the pace of production grows ever more feverish while the shortages grow ever more acute.

Obviously, this cannot go on indefinitely. Sooner or later, the point of economic exhaustion must be reached and, one way or another, the war must come to an end. The nation then emerges with much of its productive facilities destroyed, its finances in a state of collapse, a substantial part of its manpower killed or maimed, shortages of every kind of commodities, and extreme impoverishment of the masses of working people. There is an acute crisis of underproduction, the result of the wholesale destruction of the war. Such, ultimately, is the end of the "boom."

The effects are much the same as if the nation had passed through a most destructive economic crisis. This is what happened, to one degree or another, to most of the belligerents in both the first and second world wars. As a result of World War I, Sternberg observes: "By 1919, the industrial production of all the European belligerent countries had fallen more than a third. None of the previous economic crises through which capitalism had passed had led to anything like such a fall in production. European capitalism had experienced long periods of depression in which production had not increased. It had experienced comparatively short periods of crisis in which production had dropped sharply, but it had hardly ever dropped by more than 20%."[2] The destructive impact of World War II on these countries was, on the whole, far greater.

Although, to be sure, such orgies of slaughter and destruction are enormously profitable to a handful of big capitalists, certainly no one in his senses would openly advocate this as the road to economic prosperity for the masses of the people. Some nations, however, notably the United States, were remote from the scenes of battle, were engaged in combat to a relatively limited extent, and suffered no physical destruction of any consequence. These nations were able greatly to increase their industrial output and to emerge from the war with a considerably expanded productive capacity. Experiences like these give rise to illusions that war economy can do away, at least for a time, with the cyclical character of capitalist economy and replace depression with prosperity.

In the United States, the Federal Reserve Board index of industrial production in 1939 stood at 109 (1935-39 = 100). By 1943, it had more than doubled to reach a peak of 239, a feat which entailed the expansion of the nation's manufacturing facilities by more than 50%.[3]

However, as early as 1944, with growing assurances of Germany's defeat, war orders began to fall off. With the end of the war the following year came the wholesale cancellation of war orders and a steep decline in the volume of production. By 1946 the index of industrial production fell to 170, a drop of nearly 29% from the 1943 level. This rate of decline was matched only in the crisis years 1929-1933. American capitalism, therefore, found itself at the end of the war with a vastly expanded productive machine, and simultaneously with a sharply contracted market. The gap between productive capacity and available markets had been considerably enlarged, and thereby the basis had been laid for a new crisis of increased severity.

The intensified elements of crisis did not suddenly come into existence at the end of the war, but were continuously generated by the war economy from the very beginning. Stalin makes this point clear in the following words: "For what does placing the economy of a country on a war footing mean? It means giving industry a one-sided war direction; developing to the utmost the production of goods necessary for war and not for consumption by the population; restricting to the utmost the production and, especially, the sale of articles of general consumption—and, consequently, reducing consumption by the population and confronting the country with an economic crisis."[4]

In this statement Stalin, speaking in 1939, was referring specifically to the permanent war economies of the fascist Axis powers in the thirties. He pointed out that while the volume of industrial production in these countries had risen as a result of rearmament, by 1938 it had already begun to fall in Italy and Japan despite the rising military expenditures. And he predicted that "unless something unforeseen occurs, German industry must enter the same downward path as Japan and Italy have already taken."[5]

The "something unforeseen" did occur, in the form of World War II in which all three Axis powers suffered disastrous military defeat and were greatly weakened economically. But had this not happened, sooner or later they would have been confronted with the threat of an *economic crisis within the framework of a war economy,* a crisis such as is maturing in the United States today. And it is not difficult to see why.

Through war economy, capitalism seeks to avert periodic crises basically by artificially stimulating capital investment. This, the most volatile and fluctuating sector of the economy, constitutes a decisive factor in the economic cycle. Every boom period is marked by expansion of capital expenditures, and correspondingly their contraction is the real herald of approaching depression. Moreover, in every boom period, in the anarchic manner characteristic of capitalist production, the expansion of capital investment leads to an enlargement of productive capacity far outstripping the limited consumer market, and thus paves the way for the next crash.

This process is intensified by war economy. Large-scale war production injects a new sector into the economy—a war goods sector. This provides an outlet for capital which, because of shrinking markets, cannot be so profitably invested in civilian production. It brings about a shifting of capital investments to war goods industries, entailing large expenditures for conversion to war production together with the investment of additional capital to expand the productive facilities in these industries. Such investments bring huge, guaranteed profits and, where necessary, additional stimuli such as tax rebates may be added. In this way, the decline in capital investments is temporarily arrested. For a time, at least, there is rising production and employment in the expanding arms industries.

But with the war economy at a given level, sooner or later the creation of new capacity for war production outstrips this market. Investment of more funds becomes increasingly unprofitable and eventually comes to a halt. The impact of this stoppage on the capital goods industries is now all the more severe, precisely because of the artificial expansion in these industries in response to the war goods market. The capitalists may try to forestall this outcome through a variety of devices, but in the end the only "practical" way out which they can find is more war orders and a bigger war economy.

There is also another, more radical difference between such a boom and the peacetime booms of the past. In the latter, the boom period was accompanied by some rise in real wages and living standards. But a boom in military production brought about by a growing war sector in the economy is produced precisely by limiting civilian production and curtailing mass purchasing power. This does not happen at once. At first, consuming power is increased through expanded employment in the relatively well-paying war industries. But before long, rising taxes and prices take their inevitable toll, and purchasing power falls.

In an all-out war economy, the insatiable demand for war goods temporarily obliterates everything else, but in a partial war economy, in which the demands for military production are limited, the output of civilian goods continue at a relatively high level.

Under these conditions, the reduction of mass purchasing power soon makes itself felt in falling sales, accumulation of unsold goods and overproduction. Before long, this and not shortages of raw materials becomes the decisive factor limiting the output of civilian goods. There emerges a state of affairs which may be described as a sort of "crisis within a boom," in which the flourishing production of war goods is more than offset by the growing overproduction of civilian goods. The effect of the war economy has thus been to deform the economic cycle by artificially stimulating one part of the economy at the expense of increased decline in the rest.

However, this is a highly unstable condition. Eventually capital investment in the war goods industries also falls off, setting the stage for an over-all crisis of overproduction. But now the threatened crash is from a higher level than before. And the situation is further aggravated because, on top of the burden of private debt, which becomes such a millstone in an "ordinary" crisis, there is now an added load of public debt and higher taxes to hamper still further any efforts to resolve the crisis.

For a time, overproduction in the civilian sector of the economy might be offset by continued expansion of the war sector. This would, on the one hand, temporarily bolster employment through increased arms production and, on the other hand, necessitate increased limitations on civilian goods output. It would therefore tend to hold off crisis developments (perhaps even for a fairly long time). But it would do so only at the expense of ever greater curtailment of purchasing power and reduction of living standards, in other words, by building up to an even worse crisis. If this process should continue to a point where the level of total war preparations in peacetime is approached, the country would come more and more to resemble one vast forced labor camp. Indeed, this is exactly what happened to the German people between 1933 and 1939.

How far can expansion of the war economy be carried without war? It is, of course, impossible to set an actual figure. The only real limit is the degree to which the people are prepared to accept the growing burden of sacrifice entailed. And they can be convinced to accept it, as has already been pointed out, only by subjecting them to a rising tide of war hysteria and increasingly fascist methods of repression, fed by continued provocations and incitements which at every turn intensify the danger of war. Hence a policy of continually expanding war preparations not only paves the way for an ever more severe economic crash, but at the same time constantly increases the danger of plunging the nation into the horrors of total reaction and total war. Such, ultimately, are the ghastly alternatives offered the people—that is, unless they intervene to put a stop to such a suicidal course before it brings the American people to the verge of catastrophe.

In its resort to war production as a panacea against economic crises, monopoly capital resembles nothing so much as a drug addict, in whom a dose of his drug at first produces a pleasant sense of well-being. But this is soon followed by the painful after-effects which, in turn, can only be relieved by another, larger dose of the drug. And with each successive dose the immediate sense of well-being becomes less, while the after-effects become more agonizing until, through ever more frequent and massive doses of the drug, the addict ultimately destroys himself. Such (with due recognition of the limitations of such an analogy) are the "shot-in-the-arm" effects of war economy. Each "shot" momentarily staves off the outbreak of the crisis, but does so only at the cost of intensifying the factors making for crisis, and each successive "shot" is less effective than the one before. In the end, the addiction can culminate only in the disaster of either economic collapse or a third world war.

This does not mean, however, that reduction of military expenditures is an impossibility and that war is inevitable. Monopoly capital can be forced to curtail war preparations, to the extent that domestic opposition and the thwarting of its aggressive schemes by the world peace forces compel it to do so. And this struggle will be further strengthened to the degree that the American people scrap the dangerous illusion that war economy can in any real sense prevent the maturing of periodic crises.

The One-Sided Character of War Economy

The industrial expansion which takes place in a war economy is highly unstable. It is extremely one-sided, with the greatest expansion occurring in industries which at most play only a relatively minor role in peacetime. Moreover, as the instruments of war become increasingly intricate, this one-sided character becomes more and more pronounced.

The highly uneven wartime development of different sectors of industry is illustrated in Figure II, which pictures the fluctuations in industrial output since 1929. The graph shows the enormously disproportionate wartime growth in the output of

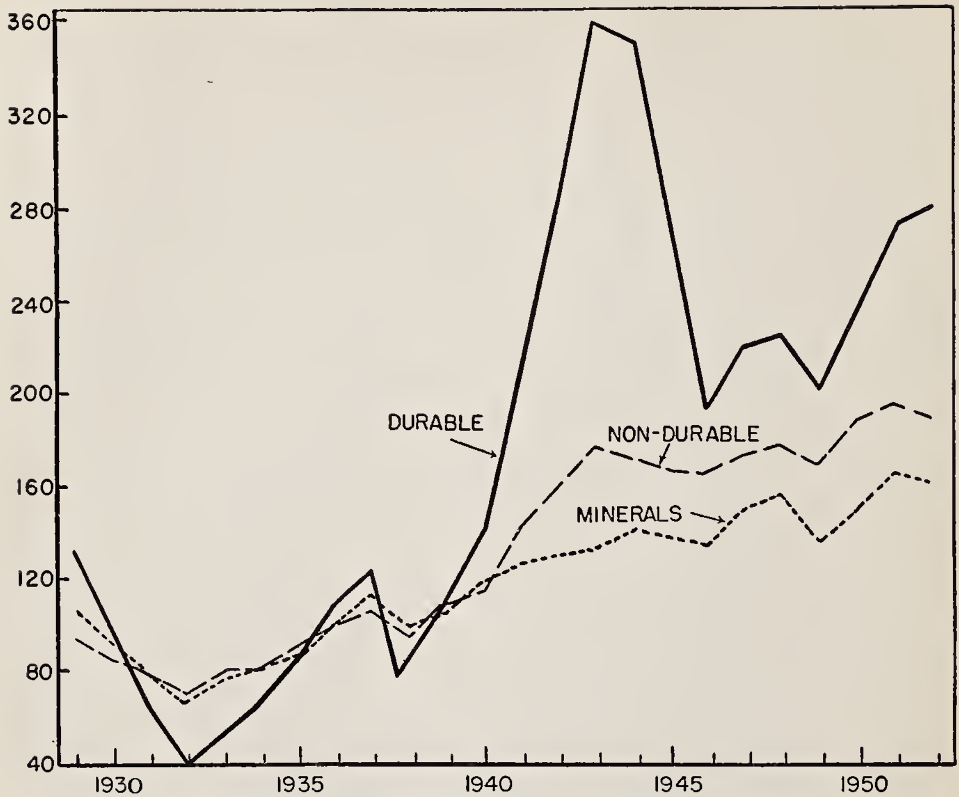

FIGURE II. Federal Reserve Board Indexes of Production of Durable Goods, Non-Durable Goods and Minerals, 1929-1952 (1935-39 = 100). SOURCE: *Federal Reserve Bulletin.*

durable goods, where the chief concentration of war materials occurs. It shows also, in contrast to the prewar years, the persistent divergence of production levels of durable and non-durable goods in the postwar period as a result of the continued high volume of arms spending, and the further widening of this gap during the Korean war. There are similarly very striking variations *within* the durable and non-durable goods sectors.

Wartime industrial expansion consists, first, in the disproportionate growth of a number of basic peacetime industries and, second, in the spectacular mushrooming of a number of "war babies," such as ordnance, aircraft, shipbuilding, chemicals, and aluminum and other light metals. In World War II, the first group of industries employed 40% of all industrial workers and the second group 21%. Together, they included 61% of all industrial workers, compared with 30% in the same industries before the war.[6]

Of all the "war babies," none is more phenomenal than the aviation industry. In its infancy when the first world war broke out, it has grown to one of the largest industries in the country—a growth directly due to military production. Starting almost from scratch in 1914, by 1918, the industry produced 14,020 planes, of which only 29 were for civilian use.[7] After the war, production plummeted more swiftly than it had risen. It recovered somewhat in the latter twenties, only to decline again in the depression years. The advent of World War II brought new life to the industry. Production zoomed from less than 6,000 planes in 1939 to a record output of 96,318 in 1944, all for military use.[8] The number of workers employed in all phases of the industry grew to nearly 1.5 million by the end of 1943.[9]

With the end of the war, the aviation industry again hit the doldrums. After V-J Day, dozens of giant aircraft plants closed down permanently, and by 1949 production had dropped to about 6,000 planes.[10]

The outbreak of the Korean war provided a new stimulus. From mid-1950 to the end of 1952, production of military planes was more than quadrupled, rising to a rate of over 1,000 a month. And these planes, it should be remembered, were vastly more intricate and costly than those of World War II. Employment in the industry tripled, rising from about 250,000 in 1950 to more than 750,000 in 1952.[11]

But this was only the initial phase of a projected expansion. Government plans in 1952 called for a jump in total production of military planes to 21,500 in 1953 and 1954, dropping in 1955 to a level of 13,500 *to be maintained from then on as a permanent minimum.* The plans called also for a permanent expansion of capacity to four times this number, with a continuing level of employment of approximately 525,000 workers.[12]

Not only is the aviation industry growing in absolute terms, but it is also increasing in relation to other branches of military production. In World War II, aircraft was already the single biggest item in the war budget, and its role continued to grow in the present period. Of the top ten war contractors between

July 1, 1950 and December 31, 1951, six were aviation companies, and of the top fifty, no less than sixteen. Aviation companies got 21.7% of the dollar value of all prime contracts while the entire auto industry, their closest competitor, got 17.2%.[13]

In addition, in line with American imperialism's aggressive program of girdling the globe with air bases, the Air Force became the largest of the three branches of the armed services in terms of appropriations. From the beginning of the Korean war to November 1952, about $62 billion had been allocated to the Air Force, compared with $57 billion to the Army and $45 billion to the Navy.[14] In 1954, the "New Look," with its reduction of ground forces and greater emphasis on air power and "super-weapons," has increased Air Force priority still more.

The main beneficiaries of these rapidly mounting expenditures are a group of less than twenty aircraft companies. The two largest, Curtiss-Wright Corp. and United Aircraft Corp., are among the 200 biggest corporations in the United States. Together they own over 25% of all assets in the aircraft and parts industries. Both have ties with the Morgan financial empire. Boeing Airplane Co. runs a close third.[15]

Moreover, the manufacture of airplanes does not end with these companies, but involves also substantial parts of the auto, electrical, and other industries in the manufacture of engines, electrical equipment and other parts. Taking these all together, we have an industry which ranks among the biggest in the country and which, in the event of all-out war production, might become overnight the largest single industry in the United States. And this industry owes its existence almost entirely to the continued maintenance of a large volume of military orders.

Another important example of the one-sidedness of war economy is the aluminum industry. Aluminum is of critical importance in a modern war economy, particularly in the production of aircraft, as well as in other types of armaments, and as a substitute for metals like copper. At the same time, the importance of aluminum in civilian production has grown by leaps and bounds. During World War I, its output rose from 23,639 tons in 1913 to 62,238 tons in 1918. After the war, production continued to climb and, despite a sharp drop in the early depression years, by 1939 it had risen to 163,545 tons.[16] This rate of growth is impressive; however, it is far less than would have occurred were it not for the limitation of output and high prices imposed by the Mellon-controlled Aluminum Co. of America, which has held a virtually airtight monopoly of aluminum production. In World War II, output was raised to a new record of 920,179 tons in 1943, more than five times the 1939 volume. By 1946, however, it had dropped to less than half that quantity. Then, with the renewed growth in military expenditures, and especially after Korea, production again zoomed, attaining a new peak of 937,331 tons in 1952. And the armament plans called for an expansion to 1,746,000 tons by 1955.[17]

Here we see how the development of an important peacetime industry is distorted by war economy. A metal which has achieved a place in many phases of modern industry second only to iron and steel, aluminum's peacetime development was retarded by monopoly, and its growth has been increasingly confined to huge bursts of wartime expansion. The expansion of the industry is highly disproportionate, greatly exceeding peacetime needs and thus depending more and more on the unstable war economy. Because it is the most profitable, the monopolists seek to make this abnormal type of expansion a permanent feature of the economy.

A similar process takes place in the chemical industry, which plays a prominent role in every war economy, particularly as the source of its most essential ingredient—explosives. The same is true also of the recently-developed electronics industry, as well as of a number of others which play conspicuous roles in war production. The most extreme case is the development of atomic energy, which has been restricted almost exclusively to the manufacture and further elaboration of atomic weapons.

In view of this abnormal, one-sided development of industry, war economy is obviously built on a highly unstable base, which collapses when war production ends. Demobilization means not merely a quantitative reduction in output of certain types of goods, but the virtual wiping out of a whole crop of special war industries, and the drastic curtailment of production and reorganization in a number of others.

Permanent war economy results in perpetuating this one-sidedness, in building this instability into the economy as a lasting feature. In the plans of American imperialism the maintenance of a vastly swollen aviation industry, the diversion of the entire atomic energy industry to the production and development of atomic weapons, the abnormal expansion of the light metal, chemical and other industries to serve the needs of military production—all these are to be *permanent* features of the economy.

This serves, for one thing, to build and strengthen a war-industry sector of monopoly capital, which in turn becomes an increasingly powerful force propelling the nation toward war. At the same time, it increasingly creates the conditions for a disastrous economic collapse, once the prop of constantly expanding military expenditures is removed. Thus the conversion of the nation into a permanent armed camp does not lessen but *increases* the instability of the economy, and does not mitigate, but *intensifies* the accumulation of factors making for economic crisis.

The Anarchy of Production in Wartime

Even in a partial war economy, the state becomes the biggest single customer for commodities and services, and in times of all-out warfare it provides, for a while, an unlimited market taxing the nation's economic capacity. In addition, the state assumes certain economic functions, such as setting production quotas, allocating raw materials, controlling prices, and so on. These essential wartime activities of the state have given encouragement to the erroneous idea that economic planning is possible under capitalism, since these activities are seen as a form of "social" planning, and as reducing the anarchy inherent in capitalist production, hence lessening the danger of crises.

During World War I, the Socialist Parties in Western Europe and in this country generally spoke of the war economy as "war socialism," "economic cooperation," and "socialism of consumption." Examples of wartime "planning" were frequently cited to prove that socialism was possible![18]

The same illusions re-appeared in very pronounced form during World War II, and were propagated especially by the leading Keynesians, who asserted that war economy provided a model of economic "planning" which needed only to be adapted to peacetime conditions to solve the problems of unemployment and depression. They appeared also within the labor movement, and were even developed widely in progressive and Marxist circles, in the form of the "theory" projected by Earl Browder (then General Secretary of the Communist Party of the United States but subsequently expelled from its ranks) that a long era of uninterrupted postwar prosperity was possible if only "progressive" monopolists would learn the lessons of planned production supposedly provided by the war economy. (For further discussion of fallacies regarding the role of the state, see Chapter 10.)

It is true, of course, that monopoly capitalism today knows no better form of state "regulation" or "planning" of production than preparations for war. Nevertheless, economic planning under capitalism is plainly no more possible in a war economy than at any other time. In fact, far from *reducing* the anarchy of production, capitalist war economy invariably *increases* it.

War production strengthens monopoly control. It expands the most highly monopolized sector of the economy at the expense of the rest, and greatly accelerates the concentration of ownership and production. But this in no way lessens the anarchy of production. On the contrary, it increases it, as Lenin points out in the following passage in *Imperialism*:

> The statement that cartels can abolish crises is a fable spread by bourgeois economists who at all costs desire to place capitalism in a favorable light. On the contrary, when monopoly appears in *certain* branches of industry, it increases and intensifies the anarchy inherent in capitalist production *as a whole*. The disparity between the development of agriculture and that of industry, which is characteristic of capitalism, is increased. The privileged position of the most highly cartelized industry, so-called *heavy* industry, especially coal and iron, causes "a still greater lack of concerted organization" in other branches of production. . . .
>
> At the same time the extremely rapid rate of technical progress gives rise more and more to disturbances in the co-ordination between the various spheres of national economy, to anarchy and crisis.[19]

In a war economy, all these processes are intensified and accelerated. The disparity between agriculture and industry, and the uneven development of different branches of industry, are increased. The conflict between the monopolized and non-monopolized sectors, and between the war goods and the civilian goods sectors, is sharpened, as is competition among small manufacturers in the narrowed sphere of operations still left to them.

An especially striking example of the anarchic character of war production is provided by the small but highly strategic machine tool industry. Modern armaments production requires an enormous quantity of special machine tools, practically overnight, before it can even get under way; hence it gives rise to a tremendous expansion of this industry.

In World War II, the industry found itself suddenly and completely swamped with military orders at the very outset. Production swiftly fell twelve months behind. Frantically, plants were expanded, working forces and hours increased, and production multiplied nearly seven-fold compared to 1939. But the volume of orders reached its peak by the first quarter of 1942, and the volume of average monthly shipments attained its highest point in the fourth quarter of that year. After 1942, production rapidly declined, and in the postwar years it skidded much more. In the 1949 slump, machine tool building was among the hardest-hit industries in the country.

The postwar slump was aggravated by two special factors. First, in the frantic haste of wartime production, the armed forces ordered huge quantities of machine tools, far exceeding actual needs. Many were never used. At the end of the war, in addition to putting a large part of them into "mothballs," they threw large quantities on the market at prices as low as fifteen cents on the dollar, which still further reduced the already sharply contracted market for new machine tools. On top of this, the cold-war embargo on trade with the socialist sector of the world cut deeply into the export market, which normally absorbs a large part of the output.

With the launching of the Korean war, the rat race was repeated. Once again, the shortage of machine tools became the main bottleneck holding up the entire armaments program. By February 1951, orders skyrocketed to a peak of more than six times the 1945-47 level. Deliveries lagged by as much as 23 months. Once more production got into full swing. By March 1952, the rate of output was nearly triple the 1945-47 average. But then came the inevitable decline. By mid-1952, tooling up and machine production had already passed their peak. Shipments were exceeding orders, cancellations of military orders were increasing, and idle capacity was reappearing. The industry was beginning again to look to civilian orders, and government priority regulations were eased.[20]

Thus, during wartime, the machine tool industry goes into a mad rush of production, leading to extensive overproduction, which is followed by a sharp decline and ultimate slump, with the dumping of large quantities of surplus machine tools on the market. Nor is the pattern peculiar to this industry. Though perhaps not in as striking a fashion, it is characteristic of war industry in general.

Engels describes the transition from crisis to boom in the following words: "Production and exchange gradually begin to move again. Little by little the pace quickens. It becomes a trot. The industrial trot breaks into a canter, the canter in turn grows into the headlong gallop of a perfect steeplechase of industry, commercial credit and speculation, which finally, after breakneck leaps, ends where it began—in the ditch of a crisis."[21] These words are descriptive of nothing if not the breakneck rush of expansion of war industries in a war economy. The main difference is that the wartime steeplechase is far swifter and more frantic than any peacetime boom. The war economy does not substitute planning for the boom-and-bust anarchy of capitalist production; it merely injects an artificial *stimulus* which, by giving rise to an orgy of war production, deforms the economic cycle but does not in any sense do away with it. The capitalist state does not really attempt to plan production in wartime. Its only concern is to secure the maximum supply of war materials, and in such a way as to guarantee to monopoly capital the maximum profits from the venture.

Contrary to the pipe dreams of big business economists, war economy does not make full use of the nation's resources. In World War II, for example, fully 15% of American industrial capacity remained unused as late as 1944.[22] Similarly, in England, the coal, steel, munitions and other key industries had a considerable amount of idle capacity throughout the war.[23] Familiar features of war economy in this country were: the cost-plus contracts which made wastefulness profitable; the hoarding of machinery, raw materials and manpower; and the production of many types of war goods far in excess of actual needs. There is nothing surprising about this, for the aim of monopoly capital, in war or in peace, is not full production planned to satisfy social needs, but only to strengthen itself and to obtain maximum profits under all conditions.

Finally, the anarchy of war production is manifested in the handling of the manpower problem. The mass displacement of workers and their reshifting at the end of the war, with the attendant unemployment and disruption, were not phases in a planned, orderly process. They were rather a part of a typical capitalist process of spontaneous, anarchic adaptation of production to new market conditions.

Myth of American Exceptionalism

The illusion that war economy can halt depression and bring prosperity has especially deep roots in the United States. The peoples of Europe, having experienced first-hand the "blessings" of war and its aftermath, are only too well aware that war brings nothing but suffering and misery, and are not readily taken in by notions that war is the road to good times. But not so the American people.

For the belief is widespread that, while the European people may be right about their own countries, things are different here. This belief with regard to war economy is but another expression of "American exceptionalism"—the notion that in the United States the laws of capitalist development are somehow suspended—which has long plagued the American working class. In the twenties, the fallacy appeared as the belief in the possibility of endless prosperity in this country, and in the forties it came to the fore in the thesis held for a time in progressive circles, of a prolonged postwar period of prosperity in which, among other miracles, "progressive" American capitalists would voluntarily double wages. Today its main expression is the illusion that in this country the effects of war economy are basically different than in other capitalist countries, that here, in contrast to the general rule, we can endlessly stave off crisis with a war economy.

As already noted, in a number of respects the position of the United States in both world wars was greatly different from that of the other nations involved. However, the unusually advantageous situation of this country was due not to the applicability of a different set of economic laws but only to certain conditions peculiar to these particular wars. Chief among these were the following:

1. In both wars, American entry was relatively late, American involvement in combat relatively limited, and the number of American casualties comparatively small. Certainly, at no time have the American people experienced the kind of total mobilization that, say, the Russian, French or German people have undergone.

2. In both wars, the United States remained an ocean away from the scenes of combat on both sides of the world. American soil never served as a battleground, nor were bombs ever dropped on any American city. To the average American, the kind of devastation which the Nazi invasion wrought in the Soviet Union and other invaded countries is still something very remote—something that one only reads about.

3. The role of the United States in both conflicts was primarily that of a vast arsenal, producing arms to be used chiefly by others. The bulk of the armaments turned out in American factories were intended for export. In addition, the export of foods and other commodities to belligerent nations was greatly increased. These exports, financed mainly by government funds, were a source of exceptionally big profits for American monopoly capital.

4. American capitalists were in a position to enrich themselves also by taking over foreign markets which the other warning powers could no longer supply, and by taking over foreign investments which allied powers were compelled to transfer

in order to pay for purchases of American goods in wartime.

Because of these factors, the American capitalist class made immense profits, enlarged its productive capacity, vastly increased its foreign investments, and finally emerged from World War II more powerful than the rest of the capitalist world combined. Out of all this, the American working people also received some crumbs.

However, as we have already shown in a number of respects, these factors could not and did not fundamentally alter the processes of capitalist development in the United States. Increasing disparity between wealth and poverty at opposite poles went on here as it did elsewhere. The wartime gains made by the workers were in general limited or transient, as were the improvements in the economic conditions of the small farmers and in the status of the Negro people. Furthermore, in very large part, these gains were possible (especially in World War II) only in relation to the depression conditions preceding the war. In the end, the enrichment of American monopoly capital in the two world wars, and the resulting crumbs for the working people, came at the expense of other countries which carried the brunt of the wars, ultimately out of the hides of the working people of those countries.

But the conditions which made it possible for American imperialism to fatten itself in wartime on the blood and sufferings of other nations have vanished. Instead, the following facts must be faced:

1. Today, American imperialism cannot remain largely on the sidelines while others do most of the fighting, but must carry on its wars of aggrandizement itself, not only with American resources but with American men as well. American imperialism has few dependable and stable allies. It is forced to rely more and more on such shaky reeds as the fascist regimes of Spain, Greece and Turkey, and on the revival of fascism in Germany and Japan. In any war today, as the Korean conflict shows, for the average American worker the prospect of a well-paying job in a war plant has shrunk as compared with past wars, while that of dying on some remote battlefield has greatly increased. In a new global war, American casualties

would be incomparably greater than in any previous conflict.

2. It is equally plain that a new world war will mean the atom-bombing of American cities with all the frightful consequences in loss of life and property.

3. The cost of waging war, thanks to new technical advances alone, has greatly increased since the days of World War II. Wars of aggression in particular are becoming exceedingly costly, both in dollars and lives, thanks to the powerful resistance of the peoples whose lands are invaded. This the Korean war has already made painfully clear.

4. War economy today cannot bring the American workers and small farmers even the crumbs they received in the past, since the present war preparations are being developed at relatively high levels of production and employment, and not out of depression conditions, as in the past.

A new world war, therefore, would entail sacrifices on the part of the American people even greater than the extreme suffering experienced by other nations in the last war. The horrors of war which, in the past, have been viewed as something which could happen only to other people, would now be visited full force on the American people.

Today, as the disastrous consequences of the present war preparations become increasingly evident, the myth of American exceptionalism can more readily be exposed. But it will require a determined struggle to undermine and eradicate this tenacious myth.

Postwar Economic Trends

Despite a wave of layoffs right after V-J Day and in the ensuing reconversion period, a crisis did not immediately arise in the United States. Instead, following the initial postwar drop, the index of production again began to climb upward, rising from 170 in 1946 to 192 in 1948. During this three-year period, investment in new plant and equipment averaged over $19 billion a year, representing a greater annual rate of capital outlay than during the war. And during this period employment rose while unemployment declined.

What was responsible for this upturn?

According to the economists, it was the result of a huge volume of deferred demand which had supposedly accumulated as savings in the hands of the people. To be sure, the bulk of the deferred demand was not in the hands of the working people but was possessed by the wealthiest sections of the population, mainly in the form of huge liquid capital reserves seeking investment.

Nevertheless, a considerable demand existed for the various types of durable consumer goods the production of which had been curtailed or stopped completely during the war. This demand was backed not only by savings but also by the removal of wartime restrictions on installment buying. At the same time, manufacturers found themselves faced with the need to retool and replace worn-out equipment, as well as to take advantage of a host of technological advances. Therefore, in expectation of big markets at rising prices, they rushed to reconvert their plants, to make the necessary replacements, and to expand their facilities as rapidly as possible. The upturn was also aided by a rapid growth in exports to the war-torn European countries, much of it financed with government funds. In 1947, exports reached a record value of $14.3 billion. Finally, another stimulus was provided by continued military expenditures, which remained at a level considerably higher than during the prewar period.

For the most part, however, these were temporary factors. *Fundamentally, the upturn took place against a background of limited mass purchasing power which could not begin to make up for the vanished war orders, and could not possibly absorb the vastly increased productive capacity and huge capital reserves accumulated during the war.* Moreover, the purchasing power of the workers, already cut by the loss of the overtime pay of the war years, was still further reduced by the postwar wave of inflation and skyrocketing prices.

Consequently, the postwar economic upswing was necessarily limited both in extent and duration. In 1947, it was already becoming clear that it had about run its course, and predictions of impending mass unemployment and depression became widespread. But these predictions reckoned without the ability of monopoly capital to maneuver, and in particular to utilize the government in various ways to hold off the outbreak of the crisis. At this point, its chief expedient was the intensification of the cold war with the enunciation of the Truman Doctrine, which provided the excuse for a considerable stepping up of direct military expenditures. Then came the Marshall Plan, which, together with other forms of foreign "aid," enabled the American monopolists to "export" some of their economic headaches. Through these measures, the economic decline was staved off for a while longer.

However, despite the increase of arms spending and foreign "aid" to a rate of some $17 billion a year, in the latter part of 1948 a depression began to develop. Retail sales fell off sharply. Inventories accumulated to alarming heights. In a growing number of industries, production was curtailed and workers were laid off. Capital investment dropped; in 1949, expenditures for new plant and equipment were nearly 13% less than in the preceding year. From a high of 199 in October 1948, the index of industrial production fell to 163 in June 1949. This decrease, more than 18% in eight months, exceeded the rate of decline in the first year of the 1929 crisis. It was not until the third quarter of 1949 that the slump was arrested.

An especially noteworthy feature of the 1949 slump was the extremely rapid growth in unemployment. According even to the greatly understated figures of the Census Bureau, the number of unemployed shot up from 1,831,000 in November 1948 to 4,684,000 by February 1950. A more realistic estimate made by the UE places the latter figure at about 6,600,000.

Occurring as it did in the face of rising military expenditures, the economic slump was a dramatic demonstration that the arms spending could not offset the crisis factors. This was also reflected in the extreme unevenness of the decline. While industries like steel and auto continued to operate full blast, production in the electrical, textile, machine tool, coal, and a number of other industries fell off sharply. Thus, the "crisis within a boom" feature of the war economy noted above was already manifested at this stage. Moreover, the decline was greatest in those items consumed chiefly by working people, while the production of goods purchased mainly by middle-income families and wealthy individuals held up relatively well—a further indication of the growing gap between wealth and poverty produced by the expanding war economy.

Korea—A New Shot in the Arm

Although industrial production had already begun to pick up before June 1950, the threat of immediate depression was not removed until the outbreak of the Korean war and the subsequent huge increase in military expenditures. This gave the faltering economy a new shot in the arm, which produced another upswing. The index of industrial production rose from 199 in June 1950 to a new postwar peak of 223 in April 1951. Expenditures for plant and equipment again increased, shattering all previous records. Unemployment dwindled, and once more all was seemingly well.

The new economic expansion, however, proved extremely one-sided. From 1950 to 1952, the gross national product, expressed in 1952 dollars, grew by roughly $34 billion. But of this increase, some $29 billion, or 85%, was in "national security" expenditures by the federal government, and only $3 billion in consumer expenditures. In contrast to the period of 1946-48, the expansion in industrial production was confined almost exclusively to those industries producing war goods where rapid tax write-offs made it possible to charge the bulk of the cost to the federal government. In the strictly civilian goods industries, on the other hand, there was at best a negligible increase in investment in new plant and equipment. Correspondingly, the growth of employment was also very uneven.

Hence, the post-Korea upturn, mainly war-inspired, did not last long. After the peak of April 1951, the index of industrial production dropped somewhat and then leveled off. While the production of durable goods held firm, non-durable goods went into a steady decline. By the middle of 1951, signs began to multiply that all was not well in a number of consumer goods industries.

Business inventories had been steadily climbing. In June 1950 these totaled $52.8 billion. By December 1951, they had grown to over $74 billion. At the same time, production began to fall off alarmingly in a number of industries. The Federal Reserve Board index of production of major consumer durable goods (1947-49 = 100) dropped from 163 in June 1950, to 108 in June 1952. Sharp declines occurred also in textiles, where the index of output fell from a peak of 194 in February 1951 to 145 in April 1952, and in other consumer non-durable goods industries as well. The inevitable accompaniment of this was a rise in unemployment in these industries, culminating in a wave of layoffs in the latter part of 1951.

What was the cause of the declining sales, production and employment in these industries? At first, it was asserted that this was principally due to the curtailed allotment of vital raw materials for civilian goods, growing out of the increased needs for war production, and that the development of areas of unemployment was merely a repetition of the "priority layoffs" of World War II, which would disappear once the rearmament program got into full swing.

But it soon became apparent that the primary cause was not shortages of raw materials. In fact, it did not take long after the outbreak of the Korean war before the anticipated shortages of many critical materials vanished into thin air. This is strikingly reflected in the trend of prices. The BLS index of spot market prices of basic raw materials, after rising steeply from 243 in June 1950 to a high point of 380 in January 1951, proceeded to fall almost as abruptly. By September 1951, it was down to about 307. It continued to fall until, by the end of 1952, it was back almost to pre-Korea levels, and by that time nearly all restrictions on the use of critical materials had been removed.

In a number of cases, overproduction and surpluses began to develop at an early stage. In the fall of 1951, steel executives spoke of declining demands and expressed growing fears of overproduction and overexpansion.[24] The 1952 steel strike was provoked by the steel barons, among other reasons, as a means of getting rid of the big surpluses which had accumulated by then. Similar situations developed in the production of aluminum, rubber, and other materials. By mid-1952, in place of debates on how much to cut civilian production, the big worry had become the mounting surpluses of key materials.

The primary reason for the decline in the civilian goods industries, therefore, was a shortage of buyers, resulting from the reduction of mass purchasing power which more and more compelled working people to confine their buying to absolute necessities. Some indication of this is given by the fact that in 1952, according to a report by the Federal Reserve Bank of Cleveland, 56% of all consumer spending for non-durable goods went for food and beverages, compared to 46% in 1929 and the early thirties (that is, in the worst depression years), while the proportion spent for clothing and shoes fell from 24% to 17%.[25]

It is small wonder, then, that alongside the boom in war production there developed a growing volume of overproduction in the civilian goods sector of the economy, a situation described by *U.S. News and World Report* in the following words:

> A strange mixture of boom and hard times runs all through today's business situation. . . . More people are at work for higher wages than ever before. Yet unemployment is acute in some parts of the country. . . . Business activity, over all, is breaking peacetime records. Yet real depression is present in some industries and some lines of trade. . . . In general . . . industries with a tie to defense often are booming at new high levels. Many others, without ties to defense and without direct access to orders from Government, are having their troubles.[26]

And this state of affairs has persisted. In the latter part of 1952, an economic upturn again took place, with the index of industrial production rising by mid-1953 to a peak of 137 (1947-49 = 100), a new peacetime record equal to the highest point achieved in World War II. In part, the upturn was due to an increased volume of war production, as the projected program of rearmament began to get into full swing. But it was sparked also by the elimination, in April 1942, of all restrictions on consumer credit, with the result that the volume of credit outstanding rose swiftly. By mid-1953 it had grown to over $27 billion, of which more than $20 billion was in installment credit.

By such means, unemployment in industries like auto was eliminated, at least for a time, although in other industries such as textiles, coal, and shipping, conditions verging on depression persisted in varying degrees. But in 1953 a new general downtrend set in. From its mid-year peak, the volume of industrial production began slowly but steadily to decline. By January 1954, it had fallen 9%, about the same rate of decline as in the 1949 slump. This time the decline involved key industries like auto and steel, which constituted the backbone of the postwar boom and which had been affected relatively little in 1949. In addition, production fell off considerably in farm equipment, non-ferrous metals, oil, and some types of household appliances. With these drops came a new wave of layoffs.

The declines clearly were not due to cuts in military expenditures, which during the period in question were negligible. Rather, they were brought about by a new glut of consumer markets (particularly in auto, appliances, and farm equipment, which in turn reduced the demand for steel), as well as by growing surpluses of many types of raw materials. A very important factor was the big drop in farm income from its post-Korea peak.

It is not possible, at this stage, to evaluate the full significance of the downtrend. But it is important to note that, unlike the downturn of 1949, it affects all major sectors of basic industry, and that it occurs in the absence of such offsets as the rising expenditures for arms and foreign "aid" and the large volume of demand in auto which existed in 1949.

Although the successive injections of increasing war spending into the economy since 1945 have stimulated a high level of economic activity and prevented the outbreak of a severe crisis up to now, they have proved incapable of assuring a *lasting* upturn in the economy as a whole. Instead, after a brief initial spurt in production, each injection has resulted in still further reducing mass purchasing power and increasing the one-sided character of the economy, thus intensifying the factors making for the outbreak of a full-blown crisis.

The Impending Crisis

There is perhaps nothing so conspicuous about the present economic situation in this country as the almost universal recognition of its instability. Precisely at a time when, by all capitalist standards at any rate, the economy is at nearly its highest peak since the end of the war, capitalist spokesmen of all descriptions —economists, industrialists, bankers, politicians — increasingly agree that "it can't last," and engage in gloomy prophecies that an economic downturn is inevitable.

There are indeed very sound reasons for such pessimism, for the cumulative effect of years of war economy has been to create a growing disproportion between expanding productive capacity and diminishing mass purchasing power, and thus to build up a mounting backlog of factors making for crisis. In the United States, this disproportion is today greater than in any other capitalist country.

On the one hand, there has taken place, on top of the World War II expansion, a tremendous postwar overexpansion of productive facilities. During the years 1946-52, a total of over $150 billion was spent on new plant and equipment, largely in connection with war production. Even after allowing for inflated prices, this represents the highest rate of expansion in the entire history of the country. As a result, by the end of 1952 manufacturing capacity was more than 50% greater than in 1945, and the capacity of non-manufacturing industries over 25% greater.[27]

In today's permanent war economy, as we have already noted, the main concentration is not on mass production of war goods but on the expansion of war production facilities. The aim of the big monopolies is the construction of a separate, permanent setup for turning out war goods. While existing facilities are retained for civilian production, the new ones are to be operated on a minimum basis or kept in standby condition until such time as they may be needed for full-scale war production. As we have seen, the whole aircraft industry is being organized along such lines, as are large sections of plant and equipment in other industries.

Monopoly capital thus seeks to provide itself, chiefly at government expense, with an *extra* set of facilities for war production, an extremely wasteful procedure which cannot possibly be justified on the grounds of any conceivable peacetime needs. The result has been a degree of overexpansion of industrial capacity in relation to available civilian markets considerably surpassing the expansion of World War II.

Overexpansion has already become a source of alarm in capitalist circles. *U.S. News and World Report observes*: "There is now evidence that, in some industries, capacity to produce is far above levels needed to meet any peacetime demands that can be expected. Yet more production facilities are coming into use daily."[28]. And *Business Week* notes: "The ease with which production can be stepped up points up a future trouble spot. Capacity is getting so large that it now takes a consumer goods boom plus a king-sized defense program to keep everyone busy. We are fast approaching the time when, even with both going at a fast clip, there will be some unused capacity."[29]

It is this orgy of capital investment which has been the main prop of the war economy-induced "prosperity," and it is clear that any substantial drop in expenditures for new plant and equipment would therefore open the doors to an acute economic decline. Yet, without a very considerable increase in military expenditures, the current rate of investment cannot continue indefinitely. In fact, the projected expansion called for by the present rearmament program was scheduled to be nearly completed by the end of 1953.

It is also evident that if an economic collapse is to be averted this huge mass of productive facilities must be put to use in one way or another. Either the output of war materials must be vastly enlarged, or the industrial plant must begin to pour out a rapidly swelling volume of consumer goods. The first alternative, in the end, means nothing short of all-out war production. The second, on the other hand, becomes increasingly difficult as long as the arms economy expands, simultaneously tending to contract the civilian market.

Today the economic situation of the average worker is precarious indeed. His normal weekly earnings, as we have seen, are inadequate. Because of this, his efforts to maintain an "American standard of living" have plunged him up to his neck in debt.

In 1945, total private debt in the United States stood at $145 billion. By December 1952, it had more than doubled to reach a volume of $308 billion. Whereas in 1945 it was only half as large as the public debt, in 1952 it exceeded the total debt of the federal, state and local governments combined, and was larger than the national income as well. Of this enormous debt, $59 billion was owed on home mortgages, $23.7 billion in consumer credit, and nearly $15 billion in farm debt. In addition, there was $27.2 billion outstanding in business loans from banks, of which a sizeable part undoubtedly consisted of loans to small businesses. It may be roughly estimated, therefore, that certainly no less than $100 billion, or about one-third of the total, was owed by workers, small and middle farmers, and small businessmen.[30] And this has been considerably enlarged by the subsequent growth in the volume of consumer debt, especially of installment debt. By the end of 1952, the latter as a percentage of disposable income had exceeded all previous peaks. By September 1953, total consumer debt stood at $27.5 billion, of which $21.2 billion was in installment debt.[31]

This huge debt represents a mortgaging of their future on the part of the American people comparable to what happened in the twenties, which helped to precipitate the 1929 crash. Today, many find themselves in a situation in which prolonged unemployment or substantial economic reverses would threaten them with disaster.

The situation is further aggravated, as we have seen, by the intensification of the chronic farm crisis and the growing symptoms of a potential financial crisis, both of which contribute to the danger of an economic crash. In addition, the disruption of the world market and the decline of American exports as a consequence of cold war policies, with which we shall deal in the next chapter, increases the danger of crisis.

Continued military spending, even at present levels, cannot much longer stave off the outbreak of a new crisis. And the present plans of American imperialism call for the maintenance of this level for only a year or two longer, after which arms expenditures would be "leveled off" to a continuing rate of roughly $40 billion a year. It is, in fact, the prospect of such a "leveling off" which frightens the big business spokesmen and gives rise to the gloomy prophecies of depression emanating from these circles.

At the same time, however, they strive to minimize the danger. There is, they assert, no threat of a major depression but only of a "corrective adjustment," a "tightening up," a "recession." The most extreme form of this Pollyanna approach is the notion that the war economy can be "tapered off" at will and, after a mild readjustment, fully replaced by the increased output of civilian goods to meet "pent-up demand." This is, of course, ridiculous on the face of it, for it is quite plain that no pent-up demand exists. On the contrary, it is precisely the absence of a real backlog of consumer demand and of any substantial savings in the hands of the workers, which heightens the danger of a severe economic decline in the event that military spending is reduced.

More widespread is the "theory" that no severe crisis is possible today because the American economy now possesses a number of built-in safeguards against depression. These, it is asserted, include unemployment compensation, old age and survivors' insurance, bank deposit insurance, and farm price supports, none of which existed in 1929. In addition, it is argued that tax reductions, expanded social welfare, and public works programs could be instituted to increase purchasing power, stimulate investment and provide jobs. In fact, both the Truman and Eisenhower administrations have engaged in a good deal of talk about programs along such lines.

We shall not attempt here to analyze these programs in detail. It is enough to point out, first, that the existing social security measures, won by the American people only in bitter struggle against the monopolists, proved inadequate to overcome the depression in the thirties. Today, with living costs so much higher than in 1939, they are far more inadequate. Thus, in the 1949 slump, it did not take long for large numbers of workers to exhaust completely their all too meager unemployment benefits. Nor, as we have seen, have the farm price supports sufficed to prevent the steady deepening of the agricultural crisis.

It is equally futile to expect that the reactionary forces of American imperialism, striving for world domination and war, will readily agree to vast public works programs and increased expenditures for social welfare. These elements violently opposed such measures in the New Deal days; and today, when they speak of cutting government expenditures, it is not military expenditures but precisely the small fraction still devoted to these purposes that they have in mind. For the monopolists, the most acceptable "solution" for the threatened loss of profits from the leveling off of war production is *more war production.*

However, with the Korean truce and the new possibilities of easing international tensions, increasing the volume of military spending has become more difficult. Hence, the administration is being compelled to consider other forms of government spending as a supplement. But what the monopoly capitalists and their spokesmen in Washington have in mind is certainly not a resurgence of the New Deal. Their actual programs, regardless of the varying layers of camouflage and demagogy with which they may be coated, are designed to guarantee the profits of the trusts, and not to improve the lot of the masses of American people.

This is especially evident in the policies of the Eisenhower administration, with its "giveaway and takeaway" programs and its open advocacy of the bankrupt Hoover line of handing billions to big business on the theory that the benefits will ultimately "trickle down" to the working people. It is evident in the big steals of government-owned resources and lands being engineered today, and in the administration policies of higher interest rates for the bankers and of tax cuts for the rich, to be made up by a sales tax on the mass of people. It is evident also in the growing maneuvers in Congress to extend the fast tax write-off bonanza to all civilian goods industries and make it a permanent institution, in order, it is said, to "stimulate investment."

Obviously, expenditures for social welfare and public works must be greatly increased to meet the threat of a crisis. It is just as obvious that if the American people are to save even the existing social welfare program from extinction, they will have to wage a resolute struggle against the monopolist warmakers.

American monopoly capital undoubtedly still possesses some leeway for maneuvering. Through new shots in the arm and bigger handouts to the trusts, it may hold off the day of reckoning a little longer. The economy may continue, for a time at least, its ups and downs. But the possibilities for maneuver are becoming increasingly circumscribed.

This need not mean that the American people are hopelessly trapped between a third world war and a catastrophic crisis. Rather, it proves that only by fighting for peace and a peacetime economy, can labor and the people hold off a severe crisis and mitigate the effects of a crisis when it comes.

9

WORLD CRISIS OF CAPITALISM

The General Crisis and the Market

The growing contradictions of capitalism in the era of monopoly capital reached their first great explosion in World War I. But the war, far from lessening these contradictions, served only to sharpen them all the more, and to usher in the general crisis of capitalism.

The basic development giving rise to the general crisis was the breaking away of Russia from the hitherto all-embracing orbit of capitalist exploitation and the establishment of a socialist sector of society competing on a world scale with capitalism. The victory of socialism in the Soviet Union not only reduced the sphere of operation of world capitalism, but it also laid bare in a new way the rottenness of the capitalist system and greatly strengthened the forces opposing capitalism throughout the world.

For capitalism, the whole problem of markets was vastly intensified, and in agriculture a world-wide chronic crisis of overproduction set in. Permanent mass unemployment, persisting even at the height of boom periods, appeared in all capitalist countries. The groundwork was laid for the development of cyclical crises of unprecedented scope, severity and duration. Such was the 1929 crisis, from which no full recovery was achieved save for the burst of increased production stimulated by war.

In the colonial and dependent countries, the very foundations of imperialist rule were shaken, and the entire national liberation movement reached a new level. Moreover, the war encouraged to some extent the growth of a native capitalism in these countries, competing with the older capitalist countries and thus further sharpening the struggle for markets.

Inter-imperialist conflicts and rivalries were greatly intensified. Fascism made its appearance, coming into power in one form or another in a number of countries during the twenties and thirties. Preparations for war proceeded at a quickening pace and the threat of a new world war, especially after the 1929 crash, moved constantly closer.

Such were the main features of the general crisis of capitalism prior to World War II. During this period, however, the victory of socialism was confined to the Soviet Union, which remained the sole socialist state, surrounded by an unbroken capitalist encirclement. Hence, a single, though somewhat diminished world market continued to exist. At the same time, imperialism was able to retain its control over the colonial and dependent countries, and to preserve these areas as comparatively secure spheres for the investment of capital. Consequently, despite the existence of the general crisis, the world market regained for a time a certain relative stability which made possible an increased rate of growth of capitalist production and trade. Thus, capitalism was able in the twenties to achieve a partial, temporary stabilization during which, particularly in the United States, production attained new peaks considerably higher than in the war period.

This situation was radically altered by World War II, itself a product of the general crisis. The war greatly deepened the crisis, and brought it to a new and far more aggravated stage. On the one hand, though American imperialism emerged from the war with greatly augmented productive facilities and capital resources, capitalism on a world scale was severely weakened and shaken. On the other hand, a new group of nations, the people's democracies of Eastern Europe, broke away from the capitalist orbit and took the path to socialism; and in Asia there occurred shortly afterward the world-shaking victory of the revolution in China.

The socialist sector of the world has thus grown tremendously as a consequence of the war, and today embraces some 800 million people, fully one-third of the earth's population. But it has also undergone a very important qualitative change, with socialism advancing simultaneously in a number of countries. And this has given rise to an economic development of tremendous importance, namely the disintegration of the single world market which had persisted in the previous stage of the general crisis. "The economic consequence of the existence of two opposite camps," says Stalin, "was that the single all-embracing world market disintegrated, so that now we have two parallel world markets, also confronting one another."[1]

One world market, embracing the socialist sector, is steadily growing and flourishing. With the phenomenal recovery of the Soviet Union from the enormous ravages of the war, and with her unstinting assistance to the people's democracies, these countries have achieved a rapidly rising level of production. This, in turn, has made possible a growing volume of trade, based on complete equality and a genuine desire for cooperation, among the nations in the socialist camp.

The economic blockade of the socialist sector, instigated by American imperialism with the aim of throttling the economies of these countries and thus facilitating their destruction, has instead served to accelerate the growth and consolidation of the new world market, and simultaneously to disrupt further the economies of the capitalist countries themselves. Thus, according to a United Nations report, "the trade of the countries of eastern Europe and mainland China with one another rose at least sevenfold in volume between 1937 and 1951, while eastern Europe's trade with the rest of the world in 1951 was equivalent to one half or less the pre-war volume."[2]

The other world market, embracing the capitalist sector, is shrinking. The area available to monopoly capital for foreign investments contracts, not only because of the growth of the socialist sector but also because of the extreme instability of imperialist rule in the colonial and dependent countries. Today the entire colonial world is in a state of ferment and revolt. The colonial and dependent countries increasingly are becoming a drain on the imperialist powers. Thus, France is being bankrupted by its "dirty war" in Indo-China, while the "police action" of American imperialism in Korea has ended in a costly stalemate. In Iran the oil industry has been nationalized and in Bolivia the tin mines. And Africa has become a seething cauldron of revolt against colonial rule. Consequently the American monopolies, as will be shown in the next section, face sharp restrictions on the scope and diversity of their foreign investments.

Similarly, the possibilities for the sale of commodities on the world market are also diminishing. Aside from the internal difficulties of the capitalist market, they must diminish all the more as the capacity of the socialist countries for export increases. Today, if a country like India needs grain, she is not restricted to the terms of highway robbery imposed by American imperialism, but has the alternative of obtaining it from the Soviet Union on terms of mutual advantage. Or if the imperialists place an embargo on the purchase of Iranian oil, the alternative exists of exchanging it with the socialist countries for machinery and other products needed for Iran's economic advancement.

These new developments have contributed to ending the relative stability of the capitalist world market. They have narrowed the base of capitalist production, greatly increased the gap between productive capacity and available markets, and drastically restricted the possibilities of further growth of production and trade. Therefore, World War II has not been followed by temporary stabilization of world capitalism such as occurred in the twenties. The level of industrial output in the United States has constantly remained below the wartime peak, while the Western European countries have succeeded only with difficulty in surpassing the prewar, depression levels of production.

The splitting of the world market into two parallel markets does not mean that trade between the two sectors is not possible or highly advantageous. On the contrary, as we shall see, it is extremely vital and can make a decisive difference in the world economic picture today. However, the existence of a world market forever closed to trade on terms of imperialist robbery, by reducing the sphere of operations of world monopoly capital, has intensified inter-imperialist rivalries over markets and sources of raw materials and has deepened the general crisis.

American Foreign Investments

One of the most significant features of the two world wars is the tremendous growth of American foreign investments during these conflicts. This growth took place primarily at the direct expense of the other imperialist powers and was of cardinal importance in establishing the dominant position of the United States in the capitalist world.

Prior to World War I, the United States was a debtor nation; in June 1914, foreign investments here exceeded American investments abroad by $3.7 billion. But in the course of the war, to get the dollars they needed to pay for military goods, the allied powers were compelled to dispose of $2 billion in American securities. They also received $1.5 billion in private loans and well over $10 billion in government loans from this country. At the same time, the American monopolies took advantage of the war situation to expand their direct foreign investments, especially in Latin America. As a result of these developments, from a net debtor the United States was transformed by the end of 1919 into a net creditor to the extent of $3.7 billion.

In World War II, a new spurt in foreign investment occurred, this time on a much larger scale, and to a great extent at the expense of Britain. To pay for war goods, almost $5 billion in British long-term foreign holdings were sold. In addition, Britain borrowed extensively, both from her own dominions and colonies and from the United States.[3]

Correspondingly, American foreign investments were greatly enlarged. From 1939 to 1946, total American-owned assets abroad rose from $13.9 billion to $21.3 billion, while foreign-owned assets in the United States grew only from $12.8 billion to $16.5 billion; hence the net creditor position of the United States was considerably advanced.[4] Not only did private long-term American investment abroad grow during this period from $11.4 billion to $14.2 billion, but government long-term investment especially soared, rising from a mere $35 million to nearly $5 billion.[5] And this was aside from almost $40 billion in outright grants under the Lend-Lease Act.

At the end of the war, American monopoly capital found itself with enormously enlarged capital reserves seeking investment, and simultaneously confronting a postwar world in which the sphere of foreign investment had been considerably narrowed. In this situation the American monopolists, relying on their overwhelming economic and political dominance, set out to take over the sources of raw materials, investments, and markets of their imperialist rivals throughout the world.

A major weapon in this drive was the Marshall Plan, designed to achieve the economic, political and military hegemony of the United States in Europe. One of the main purposes of the billions spent in Marshall Plan "aid" was to open up the Western European countries and their dependencies to increased penetration of American capital. Among other things, direct encouragement was given to American capitalists by guaranteeing the convertibility of receipts from such investments into dollars and by assuring them of compensation for any losses through appropriation or confiscation by the governments in question. Similarly, an effort to encourage investment in backward areas was made through the Point Four Program.

Big sums in foreign "aid," increasingly in the form of military "aid," have been dispensed through a variety of other agencies, as well as in the form of direct government loans (notably the $3,750,000,000 loan to Britain in 1946). In all, during the eight postwar fiscal years 1946-53, net grants and credits totaled $43.1 billion.[6]

The efforts to pave the way for private foreign investment through such expenditures have not been entirely unsuccessful. Between 1946 and 1950, such investment increased in value by well over one-third. Investments in the Marshallized countries have grown substantially since the end of the war, and investments in their dependencies have more than doubled, the increase being especially marked in the Middle East and Africa.[7] Yet, when the whole picture is examined, it becomes clear that American imperialism has not been able to overcome the growing limitations on the export of capital imposed by the conditions of the deepened general crisis.

In the three-year period, 1947-49, the annual average of net direct United States private foreign investment was $734 million.

Of this, "74% was in the petroleum industry, including refining and distribution facilities, and was distributed mainly among the few countries possessing exploitable petroleum resources. . . . Apart from investment in the petroleum industry, an annual average of only $128 million went into the Latin American Republics, and only $28 million into other underdeveloped areas."[8]

The concentration of American investment in the western hemisphere has actually grown in the postwar period. In 1950, Canada and Latin America held 70% of all private direct investment, compared to 62% in 1943. In the same period, investment in Europe fell from 27% of the total to 15%.[9] "Our long-term foreign investments," wrote the Council of Economic Advisers in January 1953, "which have averaged about a billion dollars a year since the end of the war, are now made mainly in other parts of the dollar area, such as Canada and the dollar parts of Latin America. . . ."[10]

The most significant development of the postwar period has been the rise in government foreign investment, which has grown at a rate greatly overshadowing that of private investment. From 1946 through 1950, it comprised 70% of the net capital outflow from this country.[11] During this period, loans and credits comprised 30% of all foreign "aid"—a far higher proportion than during the war. From a negligible fraction in 1939, government investments jumped to 25% of the total in 1946 and 40% in 1950.

The bulk of all postwar foreign "aid" has gone to those areas where private investment is most directly threatened. Of the more than $43 billion disbursed up to mid-1951, Europe received nearly $33 billion and Asia $8.0 billion, while Latin America got only $921 million. The concentration of loans and credits was even greater. Of a total of $11.1 billion, fully $9.5 went to Europe, with the balance going chiefly to Asia and the western hemisphere.[12]

The tremendous growth of government foreign investment is indicative of the strenuous efforts of United States monopoly capital to expand the scope of private investment. But this increasing involvement of the American government directly in the international economic field testifies also to the mounting insecurity of private investment and to the growing parasitic reliance of the trusts on the government to guarantee their profits, of which we shall have more to say in the next chapter.

The huge sums spent on foreign "aid" are, of course, a source of immense profits to the top American bankers and industrialists. But they cannot eliminate the need for monopoly capital, in its striving for maximum profits, to find foreign outlets for the investment of its ever greater accumulation of surplus capital. Furthermore, they serve to deepen the inter-imperialist antagonisms and to aggravate the danger of war.

War Economy and Foreign Trade

The effect of war is to disrupt international economic relations. Trade between enemy belligerents is completely cut off, and the blockade and embargo are used by each side to prevent the other from securing supplies. At the same time, the demands of war production disorient and distort the whole pattern of foreign trade.

War economy necessitates an enormous increase in imports of strategic raw materials and war goods, and a corresponding reduction in civilian goods imports. It also necessitates curtailment of exports in order to divert the materials and facilities involved to the production of war goods. Further, the urgent need of war goods tends to shift imports from raw materials to the much more expensive finished products. All this gives rise to an increasingly unfavorable balance of trade, which must be made up through foreign loans, sale of foreign holdings, using up of gold reserves, and export of consumer goods at the expense of increased sacrifice by the civilian population.

These features were generally characteristic of the foreign trade of all European belligerents in both world wars. Hence, during both wars the over-all volume of international trade fell sharply. The United States, however, occupied a very exceptional position. Sitting on the sidelines, she was able to act as supplier of materials to other nations who bore the brunt of the fighting—as a self-styled "arsenal of democracy." At the same time, American monopoly capital was able to capture for itself many of the export markets, especially in Latin America, which the other nations were compelled by the exigencies of war to relinquish.

Hence, in the face of the over-all decline in world trade, American exports in both world wars were greatly expanded, and record export surpluses were accumulated. From 1913 to 1918, exports of merchandise rose from \$2.5 to \$6.4 billion, and the excess of exports over imports from about \$650 million to \$3.1 billion, or more than the total value of exports in 1913. During World War II, the increases were even more spectacular. Exports jumped from \$3.2 billion in 1939 to a wartime peak of \$14.3 billion in 1944. Within the same interval, the export surplus soared from \$859 million to \$10.3 billion. This remarkable growth of exports, which contributed heavily to the war booms in this country, constituted a redivision of a contracted world market in favor of American monopoly at the expense of other capitalist countries.

The huge quantities of arms and other goods shipped abroad were paid for by the recipients only in small part through exports to the United States. To some extent, they were paid for through depletion of dollar and gold reserves and the disposal of assets owned in this country. For the most part, however, they were financed through loans obtained from the American government and later defaulted, as in World War I, or through lend-lease grants, as in World War II. In other words, these export booms were based on transitory wartime markets and financed chiefly by government funds.

In both wars, the export booms continued for a time into the postwar periods, bolstered by the huge war-caused shortages of goods and the needs of the war-torn countries for reconstruction. After World War I, exports reached a value of more than \$8.3 billion in 1920, while the postwar export surplus grew to a peak of over \$4 billion. Following World War II, exports at first declined somewhat with the discontinuance of lend-lease, then jumped again to \$14.4 billion in 1947, with an export surplus of \$8.7 billion.

The postwar exports, also financed largely through loans and various forms of foreign "aid," represented mainly a continuation of the temporary, unstable wartime markets. They were bound to fall sharply as economic reconstruction abroad was completed, and they did. The post-World War I boom was short-lived, ending in 1921. Similarly, after the 1947 peak, exports again dropped considerably.

The instability of the wartime export markets was aggravated by the foreign economic policies of American imperialism. Both world wars greatly accentuated the uneven development of capitalism in different countries; American production soared while that of the European countries fell. And the American monopolists utilized this position of advantage to the full in order to strengthen their dominance and to increase the economic dependence of other countries on the United States. Such policies, based on dumping of surpluses and forcing other countries to sacrifice their own economic interests as the price for American "aid," could only lead to unbalance in trade and payments, and hence could only serve in the end to undermine foreign trade.

The intensification in wartime of robbery in the guise of trade is manifested especially in the trade relations of the imperialists with the colonial and dependent countries. War economy creates an immensely increased demand for strategic raw materials, many of which must be imported entirely or in large part chiefly from Asia, Africa and Latin America.

In World War II, the United States and Britain utilized their positions of imperialist control to strip the colonial and dependent areas of raw materials, at fixed low prices. But during the war, on the false excuse that nothing could be spared, these countries were denied practically any of the equipment or goods they needed for their own economic development. True, some increase in industrialization did take place, particularly in India and Latin America. But most of the wartime expansion by far was confined to the extraction of raw materials to supply the needs of the imperialist powers.

Consequently, with the reduced demand for raw materials and the revival of foreign competition after the war, the few wartime gains were mostly wiped out. Nor did the glowing promises of postwar economic aid made to the Latin American countries ever materialize. As we have seen, of all the lavish billions of American foreign "aid," only a very small fraction went to them. On the contrary, the impoverishment of the colonial and dependent countries was increased. For, although the one-sided wartime trade in raw materials left these countries with a highly favorable balance of payments and even converted a country like India into a creditor of Britain, many were promptly robbed of this advantage when the war ended, as even *U.S. News and World Report* admits: "The U.S. set the prices on vital materials it bought from Latin America during the war. Dollar balances thus built up could not be spent then or right after the war. When the Latin Americans were able to spend these dollars for U.S. goods, the ceilings had been removed and prices had shot high. Net effect was to cut the value of Latin America's dollars."[13]

Hence, the war economy produced no real economic gains for these countries. On the whole, the effect of war economy is to disrupt and undermine foreign trade. And this is especially true of the current war economy, which has become a powerful factor making for a new world-wide economic crisis.

The Cold War

Since the end of World War II, the whole pattern of capitalist world trade has been shaped by the aggressive drive of American imperialism. Accordingly, foreign trade policies have to an increasing degree been determined by the efforts of Wall Street to colonialize the rest of the capitalist world; by the mounting campaign of economic warfare directed against the socialist sector of the world; and by the growing militarization of the economies of all capitalist countries. The result has been to bring about severe dislocation, disorder and a persistent downward trend in foreign trade in the capitalist camp.

Under the terms of the Marshall Plan, the trade relations forced on the Western European nations were practically of a colonial character. While American exports of the machinery and other capital goods so badly needed for the recovery of European industry were drastically curtailed, exports of agricultural products and manufactured consumer goods were greatly expanded. From the inception of the Marshall Plan in April 1948 to the end of 1950, contract authorizations for the purchase of American wheat and flour, cotton, petroleum and petroleum products, tobacco, sugar, and coal comprised 44% of the total. In contrast, the value of all purchases of machinery and equipment authorized was less than 12% of the total.[14]

Furthermore, the basis of trade under the Marshall Plan was the dumping on a huge scale of surplus American commodities, regardless of what this did to the economies of other nations. But this Marshall Plan dumping had one peculiar feature: the goods dumped were sold, not at drastically reduced prices, but often at prices considerably higher than those charged in the United States. Export prices, particularly of heavy industry products, were frequently two to three times as high as domestic prices. Thus, American imperialism began to apply the price scissors, typical of trade relations with the colonial world, to the advanced capitalist countries as well.

Part and parcel of the cold war policies has been the throttling of trade with the socialist sector of the world, a policy which has resulted in reducing trade between the capitalist and socialist camps to the barest trickle. In 1951, exports from the socialist sector to the capitalist countries totaled only $1.6 billion, and imports from the capitalist countries only $1.5 billion—a volume of trade far below prewar levels.[15] This can only be described as a policy of economic warfare in peacetime. It lacks only a military blockade to complete it, and such a blockade of the Chinese coast has been seriously proposed by various spokesmen for Wall Street.

The effect of the embargo, together with the other foreign economic policies of American imperialism, was completely to disrupt the normal trade relations of these countries. All the Western European nations, including Britain with its far-flung empire, are heavily dependent on intra-European trade, which at one time accounted for about two-thirds of the entire foreign trade of all European nations.[16]

A very large part of this vital interchange was between Eastern and Western Europe. The Western European countries got much of their grain, timber, coal and similar products from Eastern Europe. At the same time, the Eastern European countries provided a market for machinery and other manufactured goods which make up the major part of the exports of the Western European nations (in the case of Britain, nearly 90%).

The exports and imports of Eastern and Western Europe are thus complementary to one another, and the economies of the Western European countries are heavily dependent on the maintenance of this trade. In a like manner, the economies of Asian countries like India and Japan are dependent on extensive trade relations with China.

The choking off of these normal trade channels was accompanied by glittering promises that the loss would be more than made up by increased trade with the United States. But this was flying in the face of reality, for the chief exports of the Western European nations (and of Japan as well) are for the most part the same as those of the United States. Consequently, these countries found themselves, on the one hand, swamped with American exports competing with their own products and strangling their industries, and, on the other hand, with no markets for their own exports.

Moreover, the substitution of American grain, timber, coal, and other commodities for those previously obtained from Eastern Europe proved to be much more costly. Thus, it has been estimated that for 1951 at least half of continental Europe's dollar deficit was due to the need to import American coal.[17] Similarly, the cutting off of trade with China has forced Japan to accumulate dollar deficits through the importation of coal from the United States at enormous expense.

At the same time, while American monopoly capital strives to batter down all trade barriers of other nations, restrictions on imports into the United States through high tariffs and other devices are rigidly maintained.

The inevitable result of these policies has been the continued development of a completely one-sided pattern of world trade. In the seven postwar years 1946-52, United States exports totaled $90 billion and imports only $55 billion, leaving a trade surplus of $35 billion. To be sure, most of this difference is apparently made up by the more than $30 billion handed out in foreign "aid." But this "aid" could not make up for the loss of markets. In Western Europe particularly, this lopsided foreign trade led to chronic dollar shortages and dwindling gold reserves, giving rise to inflation, severe, recurrent financial crises, stagnation of industry, and growing symptoms of over-all economic crisis.

From 1946 through 1949, the deficit of Europe in its trade with the United States averaged nearly $3.7 billion a year, or about 83% of the entire value of United States exports to Europe during this period. In 1951, the deficit was more than halved, falling to $1.5 billion. However, this did not represent any basic improvement in the European trade position. The bulk of the drop is accounted for by a marked decline in American exports, which decreased by better than $1.2 billion, and this in turn was mainly the result of the adoption by the Marshallized countries of a policy of drastic restriction of imports from the United States, a desperate measure of self-protection forced by the unceasing depletion of their dollar and gold reserves. Simultaneously, capital investments were curtailed and extreme measures taken to increase exports, no matter at what cost in intensified economic suffering at home.

These trade restrictions constituted a hard blow against the already low living standards of the working people of the Western European countries, since they were applied chiefly to imports of food and other necessities, the prices of which consequently shot up, and consumption fell. In Britain, for example, in the crop year 1951-52, per capita consumption of meat was 23% below the annual average for 1934-38. Sugar was 20% less, and wheat and rye 7.5% less. But the consumption of potatoes was nearly 40% higher.[18] Nevertheless, even such draconian measures fell far short of eliminating the trade deficits and the drain on dollar and gold reserves.

Thus, the chief effect of the cold war policies of American imperialism has been to stifle trade in the capitalist world still further. Trade is increasingly confined within isolated blocs and zones, with growing walls of customs barriers, import quotas, currency restrictions and similar devices, and the virtual elimination of the last vestiges of free trade. This has happened despite intensive American efforts to break down the barriers through customs unions, the Organization for European Economic Cooperation, the European Payments Union, and the International Materials Conference, all of which have failed.

In these circumstances, of course, the foreign trade of this country has also suffered severely. Exports fell from the 1947 peak of $14.4 billion to $10.3 billion in 1950, by over 28%. In view of rising prices, the drop in the volume of exports was even greater. Moreover, the proportion of exports to total production fell from 11.7% in 1947 to 8.6% in 1948, the latter scarcely higher than the proportion in the depression years.[19] It is no secret that this decline in foreign trade contributed heavily to the 1949 slump and to the steep rise in unemployment in a number of industries.

On a world scale, the postwar period was marked by a diminution in the per capita volume of trade as compared with the prewar level.[20] To be sure, the dollar volume of world trade reached a new record in 1951; however, as Michael L. Hoffman observes in the *New York Times*, when "reduced to terms that discount world-wide inflation and population growth, it was considerably less in what might be called 'real' terms than world trade of the late nineteen-twenties."[21]

Korea and World Trade

The Korean war provided an excuse for a huge expansion of rearmament, and consequently led to a tremendous upsurge in the demand for strategic raw materials, spearheaded by a vast stockpiling program in the United States. These developments gave a temporary impetus to world trade in 1951. Total world exports rose in value to $76.5 billion, compared to $56.9 billion in the preceding year, a jump of 34%.[22] In the United States, exports rose to $15 billion, about one-third higher than in 1950, while imports hit a record value of $11 billion. Both Western Europe and the colonial and dependent areas showed a marked growth in exports and a considerable improvement in their balance of trade.

At first glance, it seemed as if the enlarged war economy had indeed overcome the stagnation in world trade. But here, too, the effects of the new shot in the arm wore off very soon.

Intensified pressure by American imperialism for the rearmament of Western Europe began long before Korea. Under the Marshall Plan, military appropriations in the budgets of the Marshallized countries from 1948 to 1950 were more than twice the sums they received in ERP funds.[23] With the conclusion of the aggressive North Atlantic Pact in April 1949, the Western European states were obliged to assume a still larger burden of armaments, while the emphasis in foreign "aid" was shifted increasingly to the dumping of war goods.

But it was after Korea that the pressure for expansion of military expenditures really mounted. The Mutual Security Act of 1951, passed by Congress in October of that year, allocated $7.5 billion for foreign "aid," of which $5.8 billion was allotted for military assistance and only $1.7 billion for economic assistance. The conditions imposed on the Western European nations for obtaining such "aid" were agreement to a program of greatly increased arms expenditures and the equipping of a big European military force. As a consequence, in 1952 the estimated military budget of Britain was 57% higher than in 1950, while that of France was 173% greater.[24]

These increases in peacetime arms budgets were piled on top of already seriously strained economies which had never fully recovered from the effects of World War II. Once more, the growth of war economy compelled the Western European countries to increase their imports for purposes of military production and simultaneously to reduce their exports, thereby leading to a renewed growth of their unfavorable trade balances. For a short time, this trend was offset as a result of large purchases of raw materials by the United States under the stockpiling program. Following close on the heels of the imposition of drastic import restrictions, this contributed materially to the temporary improvement of the European balance of trade in 1950.

However, the economic drain imposed by expanding military budgets, combined with a rapid rise in the prices of imported raw materials, which grew much faster than the prices of their typical exports, soon led to a renewed dissipation of the painfully achieved gains in dollar and gold reserves. The deficit of Western Europe in its overseas trade jumped from $2.7 billion in 1950 to $4.5 billion in 1951.[25]

In 1952, with the ending of large-scale American stockpiling of raw materials, and with the further drain of war production, Western European trade deteriorated much more. In France, the average monthly excess of imports grew from $81.1 million in 1951 to $142.2 million in the first half of 1952. In Italy, the trade deficit rose from $432 million in 1951 to $710 million in 1952. And in Britain an acute dollar crisis developed. In the last half of 1951, gold and dollar reserves of the sterling countries fell by more than 60%, and the drain continued into the middle of 1952.[26]

The American imperialists sought to offset this alarming trend by stepping up government spending for military purposes in Europe. By June 30, 1952, $684 million worth of contracts had been issued for airfields, communications, armaments and similar purposes, mostly to France and Italy, with still more planned.[27] But these new expenditures did not halt the decline. The trade in war goods could not make up for the destruction of normal foreign trade.

The Marshallized countries were driven to a new wave of drastic slashes in imports and to erecting more trade barriers. In 1951 the United States had succeeded, mainly through the European Payments Union, in inducing these nations to agree to loosen some of their existing restrictions. But by mid-1952 all pledges for liberalizing trade had been completely scrapped, and restrictions on imports became tighter than ever before. At the same time, in a desperate effort to earn dollars and bolster sagging gold reserves, exports were again increased, even of commodities of which there were serious shortages at home. Thus, Britain undertook to double its coal exports despite the persistently low level of coal output even for domestic consumption.

The plight to which the colonial and dependent countries were reduced by American post-Korea trade policies was even worse. In the purchase of raw materials, the imperialist policies of World War II were repeated, only this time the robbery perpetrated by the American monopolies was far more brazen and extensive.

The American program of stockpiling raw materials, which had been launched some years before the Korean war, was now greatly accelerated. Its goal was the accumulation of a huge $8.3 billion stockpile of some 73 strategic and critical materials. This sudden added demand, on top of the increased demands of the United States and other countries for immediate military production needs, speedily gave rise to acute shortages and skyrocketing prices. By early 1951, the scramble for these commodities began to take on the aspects of a panic, and the prices of a number of principal raw materials imported by the Western European nations rose to more than double the 1949-50 average.[28]

Stockpiling thus contributed to inflation of the prices of West European imports. But it also enormously increased the dollar-earning capacity of the raw material producing countries, including colonies within the orbits of Britain, France, Belgium, and the Netherlands. This helped these imperialist powers to reduce their dollar deficits considerably in late 1950 and early 1951, while it brought to the colonial world a brief, ephemeral boom period.

But as the stockpiles mounted to sizeable proportions, the demand in the United States became less acute. The Munitions Board and the Secretary of the Interior, who administered the program, were quick to take advantage of the situation to drive raw material prices down. To force price reductions, they refused to pay current world market prices, drawing where necessary on the existing stockpiles to meet immediate demands.

By mid-1951, the price of Bolivian tin, which had jumped from 76 cents a pound on the eve of the Korean war to a peak of $1.83 in January 1951, was forced by these maneuvers down to $1.18. The price of rubber was forced down from a peak of 87.5 cents a pound to 52 cents, and wool prices from $3.83 a pound to $1.70. In August 1953, tin sold for 78 cents a pound and rubber for 23 cents.[29]

Meanwhile, prices of manufactured goods continued to rise. Moreover, exports of machinery and industrial equipment to the colonial and dependent countries were sharply cut. Only the sale of military goods, at highly inflated prices, increased.

These policies resulted in a further sharpening of the price scissors and the squeezing of still greater superprofits from the peoples of the colonial and dependent areas, where the boom lasted scarcely more than a few months, and was swiftly followed by the growth of pronounced depression conditions. When we consider that the United States is by far the biggest buyer of raw materials, taking well over half of the total output of most important items in the capitalist world, we can well imagine the impact of the forcing down of prices on the economies of the raw material-producing countries and on the already miserable conditions of their working people.

As in World War II, the increased dollar and gold holdings of these countries were very soon dissipated with nothing of any real substance to show for them. By the middle of 1952, their trade had sharply receded in value. The UN *World Economic Report,* 1951-52 states: "Rising payments for imports in the face of declining export earnings resulted in a shift in the overall trade balance of primary producing countries, from a surplus of $2,900 million in 1950-51 to a deficit of $4,800 million in 1951-52."[30] Confronted with a threatened crisis as a result of these developments, one country after another hastened to institute drastic import curbs.

The American trade offensive, however, was not only directed toward stripping the colonial and dependent countries of raw materials and extracting increased superprofits in the process. As an integral part of its drive for world domination, American imperialism's stockpiling program was directed equally against its imperialist rivals, and particularly against Britain. Its aims were to grab up all possible raw material sources and supplies.

The expanded war economy has greatly increased the dependence of the United States on raw material imports, and a large share of these (from one-third to over 90% of various major items) are purchased in British Empire markets. The American monopolists are striving to gain control of these sources, and in a number of cases have succeeded in making serious inroads. At the same time, the stockpiling program has been utilized to increase the economic subservience of Britain and the other imperialist nations by keeping prices of American-controlled raw materials at the highest possible levels.

The effect on British industries of enforced low prices for American raw material imports combined with high prices for American exports has been to subject them to serious shortages of some materials and tremendously inflated prices for others. Thus a severe blow was struck against the British balances of trade and payments, and a number of British industries were threatened with shutdowns. Britain, which normally produces a surplus of steel, has been forced to buy American steel at higher prices than she can sell it for, and simultaneously to sell Malayan tin to the United States at a lower price than she pays.

United States foreign trade also declined. Total exports of goods, it is true, continued, at least through 1953, at approximately the 1951 level. But these totals include a mounting volume of government-financed arms exports. If arms shipments under the Mutual Security Program are subtracted, total commercial exports in 1953 were nearly $2 billion less than in 1951.[31]

The drop in foreign trade is contributing in no small measure to the mounting symptoms of impending economic crisis in this country. Furthermore, the growth of war production and the continuation of cold war policies leads to growing destruction of foreign trade and the consequent aggravation of the threat of economic crisis.

The Maturing World Economic Crisis

If the cold war and militarization of the economy have not abolished the threat of crisis in the United States, they have proved far less able to do so in the rest of the capitalist world. In Western Europe and Japan, economic conditions since the end of World War II have been unremittingly bad. All these countries came out of the war with their economies seriously weakened, and confronted with formidable problems of economic reconstruction. Coming on top of this, the depredations of American imperialism, and especially the rising military expenditures and throttling of trade inspired by its expansionist schemes, have greatly intensified their economic difficulties.

The Marshall Plan and the growing military budgets have wrecked the living standards of the masses of working people, already severely undermined during the war. Marshall Plan "aid," even its most fervent supporters are now compelled to admit, has brought no benefits to the workers of West Europe. Thus, Frank Rosenblum, secretary-treasurer of the Amalgamated Clothing Workers, speaking before the 1951 convention of the New York State CIO, remarked: "ECA representatives themselves have been compelled to admit that the program has created a new class of millionaires, profiteers, black marketeers in lands which we have sought to help, and where we have only succeeded in perpetuating and increasing the gross inequalities which already exist."[32]

In the Western European countries, inflation, both war and postwar, was far greater than in the United States. From 1945 to the early part of 1952, according to the official statistics, wholesale prices rose 635% in France, 158% in Italy and 95% in Britain. Compared to prewar levels, prices in some European countries have increased manyfold. In France, between 1938 and 1950, living costs rose 1500%; in Italy, about 5000%.[33] Added to this inflation is a staggering burden of taxes which, in countries like Britain, France and Italy, fall much more heavily on the lowest income groups than in the United States.

From the rigged official statistics, it is impossible to obtain anything resembling a true picture of real wages. It is widely recognized, however, that these are generally much lower than before the war. In fact, in much of Western Europe, workers have been reduced to a level of bare subsistence. In some countries the workers have suffered also from persistent mass unemployment. Thus, in Western Germany the number of unemployed in 1950 comprised 16% of the total labor force, and in Italy no less than 27%.[34]

With such low living standards it did not take long, as industrial production rose, for the drastic curtailment of the domestic market to give rise to problems of overproduction. Moreover, because of their much greater dependence on foreign trade, the drop in exports was bound to have far more serious effects on the Western European economies than in this country. The situation was further aggravated by the re-emergence of the chronic crisis of agriculture, and particularly by the recurrent financial crises.

Prior to Korea, Britain experienced two severe financial crises, in 1947 and 1949, when dollar and gold reserves dropped perilously. France has been in the grip of a practically uninterrupted crisis, on which one cabinet after another has broken its neck. By 1950, French gold reserves had dropped to only one-fifth of the 1938 level. And Italy and the other Western European countries, to one degree or another, have also been plagued by financial crises.

These crises, as we have seen, have been dealt with chiefly by drastically cutting imports and by increasing exports at all costs, that is, by methods leading to further depressing living standards. In addition, efforts have been made to cope with the problem of currency depreciation by resorting to devaluation. This is momentarily advantageous in that it lowers the prices of the devaluing nation's goods in terms of foreign currencies and so stimulates exports. But it also increases the cost of imports and thus increases inflation and reduces living standards further. In the end, the chief beneficiary of devaluation is American monopoly capital, since the dollar costs of labor and investments in the devaluing countries are lowered. In fact, it is for this very purpose that American imperialism has on more than one occasion deliberately forced Western European countries to devalue their currencies.

The huge increases in armaments burdens, following Korea, necessitated steep boosts in taxes, and led to increased deficit financing and a new spurt of inflation. The inevitable result was a sharp drop in consumer purchasing power, leading to a slump in consumer goods production. The United Nations *World Economic Report*, 1950-51 states: "While the production of armaments and investment goods continued to rise, the output of consumer goods dropped owing to a slackening of consumer demands." And this trend continued.[35]

The slump increasingly offset the rise in arms production, and in 1952 the total volume of production began to level off. In Western Europe as a whole, despite bigger military outlays, the 1952 industrial output showed no increase over 1951.[36] As in the United States, the expanded war economy had led within a short space of time to the emergence of a "crisis within a boom," and in more pronounced form.

Spearheading the decline was a worldwide textile slump, of which the one in the United States was a part. A *Wall Street Journal* survey early in 1952 stated that reports "weave a pattern of out-and-out depression among textile concerns, the like of which hasn't been witnessed since the thirties."[37] Nor was the slump confined to the textile industry. In most areas, growing overproduction and unemployment occurred also in such industries as footware, glass, chemicals, food processing and shipping. The stagnation and decline in industrial production also hit the unstable economy of Japan, despite its temporary prop of huge American orders for war goods for use in Korea. With the removal of this prop after the Korean truce, the situation became distinctly worse.

This world-wide slump in consumer goods production was by no means a momentary downtrend. Despite some recovery in late 1952 and early 1953, and an upswing in total industrial output in this period, by the middle of 1953 it was again very much in evidence. Thanks to the already weakened state of their economies, its impact on other capitalist countries has been more severe than in the United States. Their economic plight has been aggravated especially by the occurrence in 1951 and 1952 of a new wave of severe financial crises, by over-production and falling prices of raw materials and foodstuffs on a world scale, and by advanced obsolescence and deterioration of industrial facilities.

The new financial crises constitute a serious economic threat, all the more so since the underlying problem, namely the perennial adverse balances of trade and payments, remains unsolved, and has been dealt with only by measures which further slash domestic mass purchasing power. The extreme gravity of the situation in Britain is expressed by Harold Wilson, formerly President of the Board of Trade in the Attlee government, in these words: "In 1950, Korea, the mad scramble for raw materials, Atlantic rearmament and Britain's own excessive defense program paralyzed the efforts we were making for recovery. Once again in 1952, we are facing a grave crisis in our balance of payments, likely before long to be even worse than those of 1947 and 1949. *But now with unemployment slowly spreading across the country it is not merely another* 1947 *or* 1949 *we are facing; it is another* 1931, *with overseas bankruptcy and unemployment at the same time.*"[38] (Emphasis added.)

What renders the new financial crises so much more acute is the renewed growth on a world scale of surpluses of raw materials and farm products—a phenomenon hitherto unknown in periods of large-scale war production—and the resulting severe economic decline in the colonial and dependent countries.

These problems are aggravated by the alarming obsolescence and deterioration of the industrial plant, particularly in Britain, France and Italy. In view of the drastic reduction of capital investment in the depression years, and subsequently during the war, these countries entered the postwar period with their industries already badly in need of modernization and expansion. However, the new growth of military expenditures has once more prevented it. In addition to diverting their industrial facilities increasingly to turning out war goods, these nations (and especially Britain) have been compelled by their dollar deficits to export the very capital goods which their own industries so desperately need. This technical deterioration makes it more and more difficult for them to compete in foreign markets, and this, combined with shrinking civilian goods production, leads to still greater unemployment and depression of living standards.

It is evident, therefore, that the economic condition of the rest of the capitalist world is more precarious than in the United States. Only the staving off of the outbreak of the crisis in this country has so far saved these countries from disaster. For, clearly, the outbreak of a new crisis in the United States, with its overwhelming weight in the capitalist world economy, would plunge them into an economic abyss. Conversely, the outbreak of a crisis in the rest of the capitalist world, by wiping out much of the existing American export market, might easily be sufficient to send the already shaky American economy plummeting.

Growth of Imperialist Rivalries

The contraction of the capitalist world market has greatly sharpened the struggle for raw materials and markets and intensified the antagonisms and conflicts among rival imperialist groups. The drive of American imperialism to take over markets and sources of raw materials from the other imperialist powers, is compelling them increasingly to resist the wrecking of their economies and their conversion to American dependencies.

Most of all, the American offensive is directed against its leading imperialist rival, Great Britain, with its still vast colonial empire. The sterling area is the foremost target for penetration by United States monopoly capital, while Britain has become a junior partner of the United States, both economically and politically. Hence it is not surprising that, underneath the surface of the anti-Soviet alliance, Anglo-American antagonisms are the most acute of all.

The picture is further complicated by the revival of German and Japanese imperialism. These former Axis powers have received preferred economic treatment from Wall Street, which looks upon them as its most reliable allies in its anti-Soviet war schemes. Consequently, they have been in a position in recent years greatly to increase their export production, and have once more emerged as formidable rivals in the struggle for world markets. Cut off from their formerly extensive trade with Eastern Europe and China, they have invaded other export markets, especially Britain's, where they have made considerable inroads. Thus, by 1953 Japanese textile sales were outstripping British in many Commonwealth markets. And in the Middle East, the volume of German trade had surpassed Britain and was nearly equal to the United States.[39]

German and Japanese goods have begun also to penetrate American export markets in Latin America, as well as markets within the United States itself. In fact, this new bid for export markets is highly reminiscent of the trade rivalry developed by the Axis powers in the thirties. To be sure, these countries are today subjected to American control and even military occupation, and American imperialism seeks, while utilizing them as allies, to keep them, like Britain, in the subordinate status of junior partners. But the German and Japanese monopolists have ideas of their own, and intend to use every means open to them to restore their former economic positions.

Aside from the imposition of trade restrictions, the growing imperialist rivalries and resistance to American domination are manifested also in the rising tide of opposition to the Wall Street-imposed rearmament program and the growing failure, despite the Herculean efforts of the American generals, to meet the goals set for a European army under the North Atlantic Treaty. In France, the issue of military expenditures has been at the heart of the endless series of government crises and the fall of cabinet after cabinet. In Britain, the sentiment for cutting arms expenditures has grown rapidly, manifested especially in the movement led by Aneurin Bevan within the Labor Party. In Belgium, in the face of intense American pressure, the parliament voted to reduce the term of conscription. And the reactionary ruling class of Western Germany is engaging in the most barefaced blackmail as the price for supplying armed forces to a West European army.

By the end of 1952, the goal of 50 active and reserve divisions planned for that year had been little better than half met, and it had become clear that the ultimate goal of nearly twice that number by 1954 would have to be completely abandoned.

In 1952-53, Britain, France, and Italy reduced their military budgets below the levels originally planned. These actions were a serious rebuff to the schemes of the American imperialists. Despite the bullying and threats of Secretary of State Dulles and other spokesmen for American ruling circles, the picture remains unchanged.

Another manifestation of resistance to American imperialism is the mounting opposition to the embargo on trade with the socialist portion of the world. Notwithstanding the most strenuous efforts of the United States to eliminate such trade altogether, it has been unable to prevent at least a certain residue from continuing. Furthermore, this trade is growing. For example, Harold E. Stassen, Director of Foreign Operations under Eisenhower, reported an increase in Western European exports to China from

$257 million in 1952 to an anticipated $275 million in 1953. His report, moreover, admitted the inability of the United States to stop this trade, saying: "We had to recognize that other sovereign countries were entitled to make judgments of their own with respect to their own trade. . . ."[40]

East-West trade is vigorously defended as an absolute necessity even by conservative elements in Western Europe. Thus, British Chancellor of the Exchequer R. A. Butler stated that "Unless we could get alternate supplies, and pay for them (an important qualification, since the most likely alternatives would cost dollars), we could only dispense with Iron Curtain supplies at a serious cost to our general economy and the food supplies of our people. And if we are to get these necessary imports from Russia we must be prepared to give the Russians in exchange something they want to have."[41] At the session of the United Nations Economic Commission for Europe held in March 1952 in Geneva, a resolution calling for increased East-West trade was unanimously adopted after some solitary objections from the American delegate. And a meeting of the International Chamber of Commerce held in Geneva in the spring of 1953 also made a strong demand for the expansion of such trade.

In Japan, demands for a revival of trade with China have been mounting on all sides. Cut off from this vital trade, in the course of two and one-half years after June 1950, Japan accumulated an unfavorable trade balance of some $800 million. What saved the economy was American purchases of war goods totaling $814 million.[42] With the end of the Korean fighting and the curtailment of these purchases, Japan's shaky economy faces the threat of collapse unless exports can be greatly increased.* Consequently, opposition to the trade restrictions has become more insistent than ever and the pressure to break loose from American control has grown. Of this, even before the Korean truce, *Chicago Daily News* correspondent Ernie

* Towards the end of 1953, Japanese-Chinese trade was growing, in the month of November totaling about $3 million, a 9-fold increase over the average of the previous five months (*New York Herald Tribune*, December 6, 1953).

Hill wrote: "The Japanese are almost unanimous in wanting to revive large-scale trade with Communist China. . . . They want to import coal and iron ore from China at half the price they are now paying the United States. They would send China finished textile products in exchange. China is their largest potential market."[43]

Finally, a most important indication of resistance to the trade embargo was the widespread interest and participation in the International Economic Conference held in Moscow in April 1952, and its success in stimulating East-West trade, despite the most intensive pressure of American ruling circles against any participation. Since then, there has been mounting pressure from many countries to remove restrictions. In 1953, trade with the Soviet Union, the East European republics and China has grown substantially, and by 1954, amidst signs of a deepening economic crisis, this trade was spreading. New trade agreements, notably the billion-dollar deal concluded in February 1954 between the USSR and a group of British businessmen, indicated a sharp increase in East-West trade.

The cold war and the militarization of the economies of the capitalist countries are designed not only as preparations for an anti-Soviet war, but as means of establishing the domination of American imperialism over the entire world, including the very imperialist states which are called upon to join it as allies. The American monopolists demand that the European states give up their sovereignty to participate in a NATO army and in the Schuman Plan with its "supranational authority," both under American control. They take unilateral action even in launching war, as in Korea, and only afterward do they trouble to notify their "allies." If only to save themselves from extinction, let alone recoup their former positions, the other imperialist nations are compelled to break out of the clutches of American imperialism. It would be mistaken, says Stalin, to think "that these countries will tolerate the domination and oppression of the United States endlessly, that they will not endeavor to tear loose from American bondage and take the path of independent development."[44]

The resistance of other powers to American imperialism is as yet weak and confined within the bounds of subservience to Wall Street. But the rifts are widening and multiplying. Today there is on all sides a growing and more outspoken opposition to the aggressive, war-inciting American policies, expressed in pressure for top level negotiations among the big powers to ease world tensions and reduce the danger of war. The isolation of American imperialism is increasing, and with it the possibility that, far from being able to count on the other capitalist states as allies in an anti-Soviet war, it may find itself embroiled in a war among the imperialist powers themselves.

This growing isolation has created an acute crisis in American foreign policy, which is reflected in the emergence of a widening tactical split within the ranks of American monopoly capital itself. In opposition to the die-hard "go it alone" policy of taking on the whole world, expressed especially by such individuals as McCarthy, certain influential spokesmen are advocating tactics of maneuver and concession, including even negotiations with the Soviet Union, in order to try to patch up the threadbare anti-Soviet alliance.

Among the monopolist warmongers, these setbacks and rifts are a source of growing alarm and desperation. But for the American people, whose peace sentiment is a substantial impediment to Wall Street's war plans, they create enhanced opportunities for forcing a significant retreat in the suicidal drive toward war.

Peace and World Trade

Among the main factors underlying the mounting symptoms of crisis throughout the capitalist world, is the narrowing of the world market and the disruption of world trade, greatly accentuated by the Wall Street program of preparations for an anti-Soviet war. Hence a program for combatting the crisis must take prominently into account the need to restore world trade.

The basic need of Western Europe and Japan is for export markets, without which they cannot even begin to stabilize their economies. Under the slogan of "trade, not aid," the other capitalist countries are demanding with growing insistence that the United States provide them with markets to replace those from which the cold-war economic blockade has cut them off—in particular, that it remove the formidable trade barriers with which it has hemmed in the huge American market. Under the same slogan, they continue to press for the restoration of East-West trade.

The slogan of "trade, not aid" is readily agreed to by the main sections of American monopoly capital. But to them it has quite a different meaning. Even though some may agree with the need for a reduction in American import barriers, they have no intention of throwing American markets open to unrestricted imports of manufactured goods from Europe and Japan. Rather, what they are after is to facilitate, on their own terms, the increased import of strategic raw materials, chiefly from the colonial areas, as well as to smooth the way for greater American private investment abroad.

While endeavoring, under the guise of "freedom of trade," to take over the whole world market for itself, American big business has simultaneously maintained tight restrictions on imports into this country. As a result, since 1929 the volume of imports, despite the enormous growth in American production and consumption, has remained nearly static. "Although the physical volume of United States output increased 69% from 1929 to 1949, the quantity of merchandise imports increased only 4%."[45]

Undoubtedly, in the interests of restoring world trade, the reduction of American trade barriers and the stimulation of imports would be highly desirable and beneficial. But it would hardly begin to meet the problem. In the first place, the United States cannot possibly absorb the necessary volume of imports from Western Europe and Japan, since the chief exports of this country are for the most part the same kinds of goods which those countries seek to sell here. Secondly, with diminishing mass purchasing power and growing surpluses of consumer goods, there is little chance of a big expansion of American imports. Hence, even if all barriers were completely eliminated, it would not provide the other capitalist countries with anywhere near the markets they require. Thus, various estimates place the increase in American imports which would result at anywhere from $1 billion to at most $2.5 billion a year, whereas the total dollar deficit in early 1953 was running at the rate of some $3.4 billion a year.[46]

For all practical purposes, even this reduction in the dollar deficit is entirely out of the question, for the total abolition of American trade barriers is but a pipe dream. On the contrary, under the Eisenhower administration tariffs have been raised and import quotas cut still more. And there is every likelihood, all the current clamor and debate notwithstanding, that as the crisis symptoms in the United States multiply, import restrictions will continue to be tightened.

The call for "trade, not aid" is answered by the American imperialists with the arrogant demand that in return for vague promises of some future cuts in American tariffs the Western European nations must first eliminate their own trade restrictions. In his first state of the union message, delivered in February 1953, Eisenhower said:

> A substantial beginning can and should be made by our friends themselves. . . .
>
> Here and elsewhere we can hope that our friends will take the initiative in creating broader markets and more dependable currencies, to allow greater exchange of goods and services among themselves.
>
> Action along these lines can create an economic environment that will invite vital help from us.

The answer, in short, is an intensification of Wall Street's pressure for "free trade" and the "unification" of Western Europe in order to open it up completely to the economic penetration of American monopoly capital. The stifling of European trade, say the ideologists of Wall Street, is a consequence of the division of Western Europe into a number of separate, independent states divided by national boundaries, and hence by currency and customs barriers. On the basis of this moth-eaten fallacy, it is proposed to restore trade by breaking down national barriers through such devices as the establishment of customs unions, and especially through the setting up of numerous international agencies entailing the surrender by the participating states of part of their sovereign power. The old, reactionary

"United States of Europe" slogan of World War I vintage, dressed in modern garb, has once again become fashionable.

Elimination of trade barriers is allegedly the noble aim of the Schuman Plan, ostensibly designed to create a single steel, iron, and coal market among the six Western European nations involved, with no tariff or other barriers. Actually the plan is but a revival, in a new form, of the old French-German steel and coal cartel of the twenties, which also, by agreement of the rival groups of monopolists concerned, set up a "single market." But the new super-cartel goes further, placing control in the hands of a "supra-national authority," a governing committee with power to make decisions on production, markets, wages, and similar questions—a power superseding the authority of the individual national governments.

The most important feature of this "supra-national authority" is that, as in every cartel, control is distributed according to economic strength. And this one is completely dominated by Wall Street, with the German monopolists as junior partners. In short, it is simply a device for placing the heart of West European heavy industry, and control of its steel and coal markets, firmly under the thumb of American monopoly capital. It is, moreover, part of Wall Street's plan for using Western Europe as a spearhead for its projected anti-Soviet aggression, and the "single market" is very clearly associated with another "supra-national authority," the single European army so assiduously promoted by United States imperialism. None of the schemes advanced by the world imperialist forces for stimulating world trade offer any solution whatever, since they completely avoid the real causes of the problem today, namely, the bankrupting effect of militarization of the economy and the closing off of normal, vital trade channels.

Nothing is more obvious, as an anti-crisis measure, than the crying need for opening up large-scale trade with the socialist sector of the world. Not only is such trade essential to the economic well-being of the capitalist countries, but at the same time it does not require dollars, and thus offers a genuine solution for the problem of dollar deficits. Yet these roads to the improvement of capitalist world trade are automatically ruled out by American imperialism on the purely political grounds dictated by its war drive.

The need for trade with the socialist world is no less vital to the economic welfare of the United States than it is to that of other capitalist countries. That American-Soviet trade would greatly advance the economic interests of both countries was readily recognized in the days before the cold war. In 1943, it was expressed by V. M. Molotov and Donald Nelson in their agreement on the following two basic points:

> 1. It was in the mutual interest of Russia and America to work together in promoting sound industrial and commercial relations, so as to further their common objective of raising the living standards of their peoples and insuring a lasting peace.
>
> 2. There seemed to be no economic reason why such an exchange should not take place, especially since no serious economic conflict existed between their two countries. The United States had a surplus of capital equipment, of manufacturing capacity, and of engineering and technical skills. Russia badly needed these same things, and had much to offer in the way of natural resources which the United States might advantageously use.[47]

The importance of Soviet trade for the United States was strikingly demonstrated in the days of the 1929 crisis.

> In 1930 the Soviet Union held second place in American exports of industrial equipment, and in 1931 advanced to first place. In that year the United States, according to official U.S. statistics, shipped to the Soviet Union 74% of its total foundry equipment exports, 70% of crushing mills, 68% of forging and stamping equipment, 67% of agricultural machinery, 65% of its machine-tool export, etc. In those years of economic crisis, millions of workers in the U.S.A., Britain, Germany and many other countries were provided with work thanks to the Soviet orders.[48]

Today, the growing signs of crisis in the United States are aggravated in no small degree by the persistent decline in exports, which is responsible for much of the continuing unemployment in textile, shipping, and a number of other industries. Yet today the socialist sector offers incomparably greater markets than did the Soviet Union in the thirties, markets of which only the war policies of the monopolies deprive us, and for which expanding war production provides no substitute. The enormous potentialities of these markets are described by Malenkov in his report to the Nineteenth Congress of the Communist Party of the Soviet Union, in these words:

> While American and British bellicose circles keep reiterating that only the armaments drive keeps industry in the capitalist countries going at full capacity, there is in actual fact another prospect—the prospect of developing and extending trade relations between all countries, irrespective of differences in their social systems, *which could keep the factories and mills in the industrially developed countries working to capacity for years, that could ensure markets in other countries for the goods in which some countries are rich, promote economic advance in the underdeveloped countries and thereby establish lasting cooperation.*[49] (Emphasis added.)

To be sure, new shots in the arm of increased armaments production may again give rise to momentary spurts in capitalist world trade, such as occurred immediately after the American aggression in Korea. But such spurts can be secured only at the cost of more serious declines afterward. Clearly, the revival of world trade in any real sense can be achieved only by abandoning the path of cold war and war economy, and by taking the path of developing peaceful, mutually beneficial trade relations with all countries. Such trade relations would go a long way toward delaying the onset of an economic crisis and lessening its destructive effects. In addition, they would help materially to develop friendship between nations, to strengthen the cause of world peace, and to lessen the danger of war.

10

THE STATE IN WARTIME

The Wartime State and Monopoly

In a capitalist society, the productive apparatus is in the hands of the capitalist class, and so is the government or state apparatus, which serves the big capitalists as an instrument for furthering their interests and perpetuating their rule. In the era of monopoly capital, the state becomes the political instrument of the big monopolies, and in particular of the financial oligarchy—the handful of powerful finance capital groups (the Morgans, Rockefellers, Mellons, du Ponts, etc.) which dominate the nation's economy—whose interests it serves at the expense of all other sections of the people.

In time of war, the intervention of the state in the national economy is of necessity greatly increased. Among big business economic theoreticians who deny outright the class character of the state and look upon it as an impartial force standing above classes, its function in wartime is widely regarded as basically different than in peacetime, a line of thinking of which the following by the well-known economist, William F. Ogburn, is a more or less typical expression:

> The analysis of the system of war economics of modern states reveals the great part played by the central government. In fact, the role of the government is so great that it might be truthfully said that the government has taken over the command of industry. . . .
>
> What has happened is that industry and the government have merged. This union of business and government occurs when the high posts of control in management and coordination are taken over by the government. These are the positions of command. The war economy is then directed by the government through its appointment of production managers. . . . The union is centered in the industries directly engaged in the

production of war goods, but the influence of the direction is felt throughout the economic system, because it is all tied together. This merger of indusctry and government creates a new social order called the "war state."[1]

Such, according to this conception, is the revolutionizing effect of war economy on the state: it creates no less than a "new social order"! The state controls production and runs industry, seemingly accomplishing the miracle of providing a limitless market and putting everyone to work. All this is accomplished, says Beveridge, by "socialization of demand without socialization of production."[2] In other words, the state becomes the operator (though not the proprietor) of a Keynesian economic heaven which needs only to be carried over into peacetime to solve all the problems of capitalism.

Illusions regarding the role of the state are fostered also by the growth of nationalism in periods of war. Gigantic military budgets and appeals for sacrifice are invariably advanced on the ground that the nation is threatened with aggression, and are accompanied by pleas for national unity and the subordination of class differences in the face of the common danger. The capitalist state is held forth as the symbol of this national unity and the impartial arbiter of all class conflicts, at least for the duration of the emergency.

Such false conceptions have penetrated deeply into the thinking of the American working class, especially during World War II, when the threat to national independence was very real, and when American imperialism was compelled to rely on the forces of democracy and socialism to preserve its own existence from the onslaught of a deadly imperialist rival. It was during this period that organized labor made numerous gains, seemingly through the instrumentality of impartial government agencies and boards. And it was during this period that "theories" of class peace extending far into the postwar era gained wide acceptance among even the most advanced sections of the working class.

What is the reality which is cloaked by these illusions? Not only does the state in wartime remain fully the instrument of the top monopoly groups in every respect, but also in a war economy the state apparatus is utilized by them to tighten the stranglehold of the trusts on the economic life of the country. To be sure, a merger of big business and government does occur. But it is not peculiar to wartime; war economy, as we shall see, only speeds up a process already taking place. Nor is it at all as described in the quotation given above. For it is not the government, but monopoly capital, which occupies the driver's seat. "The fact of the matter," says Stalin, "is that the merging process is not simply a process of coalescence, but the *subjugation of the state machine to the monopolies*."[3] (Emphasis added.)

During large-scale war production the state becomes the principal outlet through which goods are sold and profits realized. At the height of World War II, the federal government, through its war production program, directly controlled over 40% of the nation's entire output of goods and services, and even in today's partial war economy it controls in the neighborhood of 15%. To carry out these activities, the government not only takes steps to secure the necessary finances, but also assumes many regulatory functions carried on with the aid of an array of special war agencies. This entire apparatus is completely dominated by the monopolies, which utilize it as a means of guaranteeing maximum profits for themselves, through juicy war contracts, fat subsidies, tax rebates, loans, and outright gifts of productive facilities. In fact, it is for these very purposes that monopoly capital presses for greater military expenditures. This is the essence of the economic intervention of the state in time of war.

In both world wars, the government agencies responsible for war production had not the slightest intention of infringing on the prerogatives of monopoly capital. Thus, Donald M. Nelson, head of the War Production Board in World War II, writes: "As I understood my job, it wasn't up to me or to WPB to *tell* industry how to do its job; it was our function to *show* industry what had to be done, and then to do everything within our power to enable industry to do it. . . . Industry told us *what* it had to have and *when* it had to have it. What we did was to establish a set of rules under which the game could be played the way industry said it had to play it."[4]

To be sure, Nelson, himself a representative of big business, attempts to minimize the powers exercised by the WPB, and to give the main credit for whatever was accomplished to the big industrialists themselves. But he does clearly indicate the subordination of the government war agencies to monopoly capital. Playing the game "the way industry said it had to play it" meant submitting to the most unconscionable blackmail and profiteering, as we have already seen. The actual role of the WPB, as of every other such agency, was to facilitate and legalize this robbery on a grand scale.

In the deepening general crisis of capitalism, monopoly capital relies more and more on the intervention of the state to safeguard its profits and strengthen its control of the economy. The expanding economic activity of the state leads, in turn, to a growing centralization of control, to its increasing concentration in the executive branch of the government, to which the administration of such activities is delegated, and hence to a corresponding lessening of control by the elected legislative bodies. This becomes especially pronounced in wartime or any period of declared "national emergency," when extensive emergency powers are conferred on the president and a multitude of special administrative agencies is created. And this centralized administrative apparatus monopoly capital increasingly subjects to its direct control.

War and Economic Concentration

The one-sided industrial development characteristic of war economy, as we have seen, shifts the center of gravity of production toward the most heavily trustified sectors of industry. Hence large-scale war production increases the omnipotence of the big monopolies, which corner the lucrative war contracts, and greatly accelerates the whole process of concentration of production and centralization of ownership.

This became particularly marked during World War II. Of some $175 billion in prime contracts awarded to 18,539 corporations between June 1940 and September 1944, no less than two-thirds went to the top 100 corporations and fully 30% went to the top ten.[5] In the current war economy, the degree of concentration is just about as high. Out of $44-billion worth of prime contract awards made between July 1, 1950 and December 31, 1952, over 62% went to the top 100 corporations, and 29% to the top ten.[6]

With the advent of C. E. Wilson, former General Motors president, to the post of defense secretary, such concentration became an openly declared policy. In fact, under the guise of limiting contract awards as much as possible to the "single, efficient producer" in each field, even some of the biggest corporations are today being squeezed out. How this policy works in practice is illustrated by the award to General Motors in September 1953 of an Army contract for the manufacture of M-48 medium tanks previously produced by Chrysler—a switch which was destined soon thereafter to leave General Motors as the nation's sole producer of tanks.[7]

In World War II, the big corporations also got the bulk of the new plants built at government expense. During the war, the 250 largest manufacturing corporations operated 79% of all new privately-operated facilities built with federal funds, and when the war ended these same 250 corporations bought up 70% in value of all plants disposed of up to mid-1946.[8]

The gigantic atom bomb industry, developed during and after World War II entirely at government expense, is today almost exclusively the domain of three big corporations: General Electric, du Pont, and Union Carbide and Carbon. Likewise, the operation of the synthetic rubber industry, also developed by the federal government and having a capacity nearly equal to the total prewar world output of crude rubber, is in the hands of a few huge corporations.

At the other end of the scale, the small manufacturing firms have been largely left out in the cold. During World War II, companies employing less than 500 workers, which comprised about 98% of all manufacturing firms, received only about 22% in value of all prime contracts, 7% of the first layer of subcontracts, and 1% of all subcontracts at lower levels.[9]

Today the small firms are even more completely at the mercy of the industrial giants. Not only do they find it practically impossible to bid against the big companies, but the growing practice of awarding contracts to the large concerns by direct negotiation in place of competitive bidding squeezes them out still more. Hence they are reduced increasingly to handouts from big business on whatever terms the latter chooses to dictate.

The consequence of the concentration of war orders among a comparative handful of giant concerns has been the elimination of many small firms and a marked acceleration of the process of concentration of ownership in industry. This occurred to a pronounced degree even in World War I, and in World War II it developed on a much bigger scale. In 1939, firms with 500 or more employees comprised about 1% of all manufacturing firms and accounted for 48% of all employment in manufacturing. In 1944, they comprised 2% of the total and accounted for no less than 62% of the employed. These developments affected not only manufacturing, but the non-agricultural economy as a whole. Despite the wartime boom, from 1941 to 1943 the total number of firms in business declined 17%.[10] As we have already noted, a similar process took place in agriculture. Thus, the domination of big business over the entire economy was greatly increased.

The wartime growth of concentration is manifested also in the accelerated rate of mergers and acquisitions during and especially immediately after every war period. The World War II years witnessed a steady increase, with mergers in manufacturing and mining rising from 87 in 1939 to 333 in 1945, and to 419 in 1946. Today the rate of mergers is higher still. By the end of 1951, they were occurring at the rate of about 750 a year.[11]

Thus, the war economy serves as a means of vastly speeding up the concentration of ownership, and of tightening the yoke of the trusts about the necks of the people. Behind the giant industrial monopolies which fatten on the enormously profitable war contracts stands the handful of finance capital groups who are the real rulers of America. Their vast power grows all the more as a result of war economy, and it is through the agency of the wartime state that this is accomplished.

Growth of State Monopoly Capitalism

Along with accelerated concentration of wealth and economic power, war economy also intensifies the development of state monopoly capitalism. This was already evident in the first world war, as Lenin pointed out: "During the war, world capitalism took a step forward not only toward concentration in general but also toward transition from monopoly in general to *state capitalism* in an even greater degree than formerly."[12] And further: "The imperialist war has greatly accelerated and intensified the process of transformation of monopoly capitalism into state monopoly capitalism. The monstrous oppression of the masses of the toilers by the state—which is becoming merged more and more with the all-powerful capitalist combines—is becoming ever more monstrous."[13]

The essence of state monopoly capitalism lies in the utilization of the government machinery and financial resources by the monopolies to guarantee and perpetuate their profits. It manifests itself in a great variety of forms, which may be boiled down to two main categories:

1. Subsidizing of monopoly capital by the state, through such devices as government purchase of stock in private corporations, provision of plants and equipment at government expense, outright nationalization* of enterprises, etc.

2. Cartelization of the economy, with the development of compulsory cartelization, which may assume various guises.

State capitalist tendencies are particularly a product of the era of monopoly capital. Although they existed prior to World War I, they became especially pronounced in the period of the general crisis of capitalism. As the general crisis deepens, and as the capitalist relations of production become increasingly an

* Nationalization of an enterprise by a capitalist state usually takes place when its operation under private ownership is no longer profitable. Government ownership of such an industry is a means of rescuing the capitalists and assuring them of profits from its operation in one form or another—through exorbitant compensation of its erstwhile owners, payment of fat fees for management, extravagant prices for raw materials and equipment, and so on.

obstacle to the development of the productive forces, monopoly capital is compelled more and more to depend on the economic intervention of the state to bail it out, and to rescue its investments and profits. The extensive growth of state monopoly capitalism is therefore symptomatic of an advanced stage of crisis and decay, and of the growing bankruptcy of the capitalist system. It is under these conditions that monopoly capital digs its parasitic tentacles ever deeper into the state apparatus, in order to prolong its existence at all costs.

State capitalist tendencies are sharply accentuated in times of economic crisis and above all in times of war. Indeed, war economy itself, with its fabulously profitable war contracts, its virtual gifts of billions of dollars in new plant and equipment, and the mounting interest payments on the national debt, constitutes a system of vast subsidies to the monopolies. And the concept of permanent war economy is to make this system of subsidies a perpetual feature of capitalist economy.

In a war economy, the process of capitalist nationalization is greatly accentuated. Large scale war production necessitates the development or expansion of a number of war industries (for example, ordnance manufacture and shipbuilding) the transitory character of which renders them unprofitable in the long run, in view of the huge capital outlays required. Such industries may therefore be developed in very large part as government-owned enterprises. They may be government-operated, or they may be turned over to private operation; in either case, government ownership relieves the trusts of the necessity of investment, while assuring them all the profit.

In this country, capitalist nationalization occurs almost exclusively in war industries, notably the mammoth atomic bomb industry. Indeed, nowhere is the development of state monopoly capitalism more sharply revealed than here, as has been shown by James S. Allen in his book *Atomic Imperialism.*

This vast enterprise, whose capital assets are bigger than those of General Motors and U.S. Steel combined, and which was built from the ground up entirely with government funds, has been placed lock, stock and barrel at the disposal of a handful of big corporations. These few giant concerns have been assigned, in the guise of "managers," all the plants, equipment, materials, patents and technical know-how in the field, *to operate as their own private monopoly.* And from the operation of this government-financed and government-owned industry, these corporations extract great profits, without having invested so much as one cent of their own in the venture. On this remarkable arrangement, which is widely proclaimed by the spokesmen of monopoly capital as a new kind of "partnership" between big business and the government, Allen comments:

> A working partnership is still to be invented in which one member makes all capital investment, supplies the funds for current operations, bears all risks, and covers the partner for all losses, while the latter without investing a single penny runs the entire enterprise, appropriates all current profits, accumulates for his own use a multitude of new techniques, and, into the bargain, reserves for himself the exclusive domination of the undertaking for the present and the future. This hardly suggests a status more or less of equality among participants, which is the earmark of a business partnership.[14]

On the contrary, it indicates only a relationship of unmitigated looting of the state's treasury by monopolist "partners." Nor is this form of robbery confined to the atomic bomb industry. It exists also, though not on as grandiose a scale, in the government-owned synthetic rubber industry, and it is rapidly emerging as a pattern for other war industries.

Another noteworthy aspect of the development of state monopoly capital in the United States, both during World War II and in the postwar period, is its vast extension into the realm of foreign investment and foreign trade. The more than $71 billion in foreign grants and credits distributed by the federal government since 1940, as we have observed in the preceding chapter, has provided American finance capital with an extremely rich source of profits, a source to which it has increasingly turned in its quest for maximum profits in the face of a constantly narrowing capitalist world market. And this development, too, has its roots in war and preparations for war.

Cartelization of the Economy

Along with the subsidizing of the monopolies by the state, the development of state monopoly capitalism is exhibited also in the growth of the cartel system, culminating, particularly under the pressures of crisis and war, in compulsory cartelization. The cartels, as organizations for the control of production, prices and the allocation of markets in their fields, are naturally dominated by the biggest corporations, which use them as instruments both for extending their sway at the expense of the smaller firms and for competing more effectively with rival monopolist groups in other countries. And they offer a ready vehicle, especially in wartime, for the interlocking of the state apparatus with the big monopolies.

The classical example, both of state monopoly capitalism in general and cartelization in particular, is Germany. The German cartel system was already well developed by the time of the first world war. The war itself brought about the development of compulsory cartelization. In almost all industries, "war companies" were set up. These were official bodies with sweeping powers to requisition raw materials, distribute materials and orders among different manufacturers, and regulate prices. The existing cartels formed the nuclei of these war companies in their industries, and where they did not exist, new cartels were formed. Consequently, the number of cartels grew rapidly. In 1922, the total number was about 1500, nearly triple the prewar figure. Needless to say, the powers of the war companies were openly used to squeeze out the small manufacturers, which was further facilitated by the adoption in 1916 of the Hindenburg Program, including the enforced closing of the "least efficient" factories, ostensibly to save raw materials.[15]

Although cartelization continued under the Weimar Republic, it was with the coming to power of the Nazi regime in the thirties that the cartel system reached its full flower. In 1933, the decree on compulsory cartelization was issued. It converted the existing cartels into official organs under direct state control, and authorized the Ministry of Economic Affairs to organize new cartels in all other industries. It was followed by a host of other decrees in subsequent years, all directed against small business.

As a result, by 1939, thousands of small firms had been forced out of business. Concentration of control proceeded at a swift pace, and monopoly profits surpassed all previous records. All this was done in the name of mobilizing the national economy for war. After the war broke out, cartelization and the subjugation of the state apparatus by the trusts moved speedily to their full realization. Allen states: "Self-government in industry, that is, the complete domination over the economy by the trusts and combines, attained its complete political fruition in the Hitler state. By 1943 the fusion had become so complete that the dividing line between the Hitler state apparatus and the hierarchy of the trusts could hardly be discerned. Most of the cartels were dissolved and their functions taken over directly by the war agencies of the Reich which were staffed by the former officials of the cartels."[16]

In other words, in the end the German cartelists, from the vantage point of posts in key war agencies, exercised an ironclad control of the national economy. Such was the course of development of cartelization in Nazi Germany.

In the other leading capitalist countries, aside from the United States, the growth of cartels followed more or less the same general pattern. Compulsory cartelization was developed extensively by all the fascist powers, Italy and Japan, as well as Germany. In Britain, too, compulsory cartelization developed to some extent during the depression years, especially in coal and textiles, and was considerably expanded during World War II.[17]

In the United States, on the other hand, cartels of the European type have played only a minor role. The principal experience with compulsory cartelization here was the short-lived National Industrial Recovery Act of the depression years. This first offspring of the Roosevelt administration, inspired by the United States Chamber of Commerce, came to an early end when it was ruled unconstitutional by the Supreme Court.

During World War I, tendencies toward open cartelization appeared only in embryonic form, with the establishment, under the aegis of the United States Chamber of Commerce, of a multitude of War Service Committees, each representing a particular industry. Where trade associations existed, as in the steel, chemical, textile, and a number of other industries, these served the purpose; where they did not exist, special committees were set up. The stated purpose of these committees, which were advisory in character, was to enable the government to deal with each industry as a unit.[18] Nor was there in World War II appreciable development of a formal cartel structure. Here, too, cartel-type economic regulation, though much further advanced than in World War I, remained within the framework of key war agencies working in comparatively informal collaboration with advisory committees and trade associations.

In part, the absence of open, direct forms of cartelization, and particularly of compulsory cartelization, during the two world wars is a reflection of the relatively favorable position of American monopoly capital. But it was due also to certain peculiarities in the historical development of American capitalism. In this country, the mammoth scale on which production developed, with the constant utilization of the most advanced techniques of mass production, has led to the growth of gigantic single enterprises, far surpassing their European counterparts in size. Hence, as a Federal Trade Commission report states:

> As contrasted to European countries in which business combinations have readily taken on the form of cartels and loose-knit associations of independent businesses, such combinations in the United States have generally taken the form of the giant corporation, with its typical divorce between ownership and control, its tight centralization of power in the corporate management, its enormous financial resources, its community of interest with other corporate and financial groups, and its insatiable quest for greater and still greater economic power.[19]

An additional factor has been the strength of the anti-monopoly movement in the United States, reflected in the passage of the Sherman Anti-Trust Act whose effect has been to restrict open cartel combinations. But this factor is of distinctly secondary importance. Thus, in World War II, although the anti-trust laws were virtually suspended for the duration, this had little effect on the forms of monopoly organization.

However, while such factors have strongly affected the *form* of cartelization in this country, they have by no means lessened the extent of its development. On the contrary, cartelization of the American economy has developed to an extremely high degree, growing especially during World War II and in the postwar period.

The giant corporations which dominate the economy have been able to maintain their positions of monopoly control of industry, to cope with their monopolist rivals abroad, and to pursue their "insatiable quest" without resort to open forms of forced cartelization. In this, the trade associations which exist in most major industries, dominated as they generally are by a handful of mammoth firms, have played a particularly prominent role. For a good many years, these have provided the top monopolies with an effective channel for fixing prices, establishing production quotas, dividing up markets, allocating patents and trade marks, and other cartel activities. In addition, the giant American trusts have been able to participate actively and even openly in export and international cartels.

In World War II, the process of cartelization was greatly intensified. The top war agencies, staffed by representatives of big business and working closely with the leading monopolies and the trade associations, wielded a life-and-death control over industry. They determined who got the life-giving war orders, who could get raw materials, machinery and manpower, who could produce what and how much. They could prohibit whole lines of industry from operating as effectively as did the enforced closing of firms in Germany. And these powers, as we have seen, were used relentlessly to accelerate the squeezing out of small business and the growing economic stranglehold of the trusts.

With the development of the permanent war economy, and especially with the outbreak of the Korean war, the process of cartelization has continued and has been further elaborated. The concentration of monopoly power taking place in the United States today is being effected, even more than in World War II, through direct monopoly control of the state machinery and particularly of the key war agencies, which are now more highly centralized than ever before. This is apparent from even a cursory examination of the present "defense" setup, as established by the National Security Act of 1947.[20] Although this setup has been changed in some details since then, particularly in the direction of greater centralization, it remains fundamentally unaltered. At the heart of the immense war machine are three key agencies:

1. The National Security Council, consisting of the President, the Secretaries of State, Defense, Army, Navy, and Air Force, and the chairman of the National Security Resources Board. Its function is to advise the President on foreign, domestic and military policies relating to national security.

2. The National Security Resources Board, which includes, in addition to an appointed chairman, the President and the Secretaries of State, Defense, Interior, Commerce, Agriculture, and Labor, and is responsible for industrial mobilization.

3. The Munitions Board, which is composed of the undersecretaries (or assistant secretaries) of the three divisions of the armed services, together with an appointed chairman, and is responsible for procurement for the armed forces.

The makeup of these bodies, in which is centered the control of the entire war economy, exhibits two particularly significant features. First, the core of their personnel consists of top cabinet officials, thus placing in the hands of the federal administration tremendous economic power. And the more extensive the war preparations, the greater the power. Second, these cabinet posts, as well as other appointive positions on these government boards, are today occupied almost completely by top representatives of the most powerful finance capital groups in the country, a point which will be dealt with in the next section. And this is especially true of the Defense Department which dominates the whole picture.

These war agencies, in turn, work closely with a host of advisory committees, trade associations, war mobilization committees, and similar organizations, which likewise consist of representatives of big business. In particular, they maintain close liaison with a group of ten industrial associations specializing in military production (the Air Force Association, Army Ordnance Association, Navy Industrial Association, etc.).

Through this apparatus, dominated from top to bottom by the biggest monopolies, mobilization plans are drawn up for each industry, raw materials are allocated, war contracts are awarded, and so on. Through the stockpiling program, this setup also serves monopoly capital as a centralized purchasing agency for strategic raw materials, which it uses, as we have seen, in its efforts to corner world raw material supplies and sources. Moreover, in it is vested the ultimate control over a growing body of war industries developed in the form of tightly knit state cartels. Most prominent of these is the atomic munitions industry, of which Allen says:

> Owned by the government and operated by the private corporations, the enterprise represents the merger of state and monopoly at the very highest national level. This state-owned, monopoly-dominated combine heads a world cartel covering raw materials and atomic enterprises in a number of countries. In the new munitions cartel, the most powerful ever to operate, are to be found the peak groups of world finance capital.
>
> Here we have cartel politics in its most developed form. The state apparatus and the corporate structure are thoroughly intermingled, and this complex is ruled by the giant trusts. National policy becomes a direct function of the uppermost monopoly circles.[21]

Cartelization of the American economy, under the impetus of the permanent war economy, has developed to a very advanced stage, indeed. The taking over of the state by the trusts has reached a degree in some respects fully as extreme as in Hitler Germany at its peak during World War II. To be sure, this has developed in a peculiarly American form. Nonetheless, it has endowed the big monopolies with an iron grip on the national economy, enabling them to divide production and raw materials among the giant concerns and squeeze out small business as effectively as in the most ironbound formal cartel setup. Moreover, it has provided them with a potent instrument for waging their struggles to down their imperialist rivals and to dominate the world.

The development of state monopoly capitalism is also indicative of the advanced state of crisis and decay of American monopoly capital. And as it continues to unfold, it may truly be said, with Lenin, that "the monstrous oppression of the masses of the toilers by the state . . . is becoming ever more monstrous."

Wall Street Takes Over

With increasing parasitic dependence of the monopolies on state intervention, the direct taking over of the state apparatus by their top representatives proceeds apace. In the United States this process, greatly quickened in every period of extensive war preparations, is now very far advanced, culminating in what one labor paper has termed the "zillion dollar cabinet" of the Eisenhower administration.

In past war periods, the representatives of big business have invariably taken control of the wartime government agencies and boards. Both world wars were marked by huge influxes into Washington of "dollar-a-year men," who became as numerous as flies and as thick as thieves. In World War I, the pivotal War Industries Board was headed by the Wall Street broker and speculator in copper stocks, Bernard Baruch. In World War II, although some important posts went to leading New Deal figures, the over-all pattern remained substantially unchanged. Thus, on the War Production Board, whose chairman was Donald R. Nelson, purchasing agent for Sears, Roebuck and Company, the Production Division was headed by William H. Harrison, vice-president of American Telephone and Telegraph; Industrial Operations by James S. Knowlson, president and chairman of the board of Stewart-Warner; and the Materials Division by William L. Batt, president of SKF Industries. Other key posts in the vital WPB setup went to William S. Knudsen of General Motors, Edward R. Stettinius of United States Steel, and Philip D. Reed of General Electric—the top executives of the three most powerful industrial corporations. And this situation was typical of all the important war agencies.

The necessary corollary of the domination of war agencies by big business has been the relegation of representatives of organized labor to a minor, insignificant role. In World War I, despite the yeoman service rendered by Samuel Gompers and other AFL leaders in peddling the imperialist slaughter to the workers as a "crusade for democracy," they received virtually no posts of real consequence in the wartime government apparatus.

The World War II picture, in spite of the just character of the war, the vastly greater strength of organized labor, and the existence of a New Deal Government, was not too different. Sidney Hillman, president of the Amalgamated Clothing Workers, became head of the Labor Division of the War Production Board, and several other labor leaders were appointed to relatively important posts. Nevertheless, these were all limited to the special field of "labor problems," and in general the participation of labor was confined to agencies like the War Labor Board and to minor positions as "labor advisors" to appointees from the ranks of big business in other bodies.[22] The part played by labor in the decisive policy-making bodies was practically nil, and although both Philip Murray and William Green protested against this state of affairs on more than one occasion, it was never really changed.

After 1945, with the launching of the cold war and the emergence of a permanent war economy, the direct control of the state machinery by the monopolies advanced to a new level. For one thing, the permanent war economy has given rise to a vast network of federal war agencies, boards and committees which, unlike those established during World Wars I and II, are not of a temporary, emergency character, but are regarded as essentially *permanent* additions to the state apparatus, intended to function for an indefinite period. This huge new bureaucracy, which has pushed the old-line federal agencies more and more into the background, has come completely under the thumb of the most powerful monopoly interests.

Also, the militarization of the economy has brought about a tremendous growth of the influence and power of the military within the state, and a rapidly increasing fusion of the military with big business. The influence of the military in determining national policy, considerably enhanced by the unification of the armed services into a single Department of Defense, is far greater than at any time in the past. Its great power is conspicuously demonstrated in the domination of the whole present-day complex of war agencies by the Department of Defense and the Munitions Board, as well as in control by the military of the Atomic Energy Commission and the entire atomic energy program.

Of course, the military is not an independent social grouping. Its members have been derived principally from the upper middle-class and capitalist strata of American society, and hence have close ties with these groups. And these ties, as Allen points out, are greatly strengthened in periods of war:

> In the two world wars, the merging of military brass with big business was greatly accelerated. Corporation executives, either in uniform or as civilians, took direct charge of industrial mobilization for war, and also of the armed services departments of the government. Presidents and directors of banks and corporations became generals and admirals overnight, while professional military officers appeared increasingly in the role of corporation executives as soon as the war was over. This interchange of personnel became a marked feature of American affairs especially as a result of World War II.[23]

The trend has been continued and further intensified by the present war economy. This is particularly true of the extensive penetration of the military into the ranks of top corporation executives, which Henry Luce's *Fortune* describes as "a phenomenon new to American history."[24] The list of former big brass in such posts today is long and impressive.*

At the same time, military men have been placed in growing numbers in key government positions. Of this, the most striking illustrations are the appointment of General George C. Marshall as Secretary of State and subsequently as Secretary of Defense in the Truman cabinet, and above all the selection by Wall Street of General Eisenhower as its candidate for the presidency in 1952. In addition, there have been numerous appointments of military figures to posts in various government agencies.

A most significant feature of the present period is the growing assumption by leading representatives of monopoly capital of

* Among them are: General Douglas MacArthur, chairman of board, Remington-Rand Co.; Admiral Ben Moreell, president, Jones and Laughlin Steel Corp.; Gen. Brehon Sommervell, president, Koppers Co.; Gen. Joseph McNarney, president, Consolidated Vultee Aircraft Co.; Gen. Lucius D. Clay, chairman, Continental Can Co.; Gen. Leslie R. Groves, vice-president, Remington-Rand Co.; Rear Admiral Walter A. Buck, head of RCA Victor Corp.; Gen. James H. Doolittle, vice-president, Shell Union Oil Corp.; Admiral Jonas H. Ingram, vice-president, Reynolds Metals Co.; Major Gen. Russell L. Maxwell, ranking vice-president, American Machine and Foundry Co.

top positions, not merely in important war agencies, but in the uppermost policy-making organs of the government. This trend was manifested in a series of Truman cabinet appointments, especially to the key Department of Defense.*

These appointments, however, still represented in the main only the direct participation of monopoly groups and spokesmen of secondary importance. In the Truman cabinets, the most powerful monopoly groups were not yet *directly* included. This step remained for Eisenhower. The composition of the initial Eisenhower administration denotes a long stride in the direction of outright control of the machinery of government by the top financial oligarchy itself. This is strikingly exhibited by his appointments to the three most decisive cabinet posts:

Secretary of State: John Foster Dulles, former director of American Banknote Co., International Nickel Co. of Canada, American Agricultural Chemical Co., Babcock and Wilcox Corp.; trustee of the Bank of New York and Fifth Avenue; chairman of the board of the Rockefeller Foundation; partner in Sullivan and Cromwell, law firm representing the Morgan, Rockefeller and other finance groups; former organizer and director of world cartels.

Secretary of Defense: Charles E. Wilson, for many years president of General Motors Corp., the nation's biggest holder of war contracts and part of the du Pont financial empire.

Secretary of the Treasury: George M. Humphrey, president of M. A. Hanna Company; director of numerous coal and iron mining, steel, shipping, investment and other companies; director of National City Bank of Cleveland.

These men are not mere "spokesmen," "employees" or "repre-

* The first Secretary of Defense appointed by Truman was James Forrestal, former president of the leading investment house of Dillon, Read and Co. Next was Louis Johnson, a director of Consolidated Vultee Aircraft Corp. A later occupant of the post was Robert A. Lovett, partner in Brown Brothers, Harriman and Co., another leading investment house. Among other top Defense Department appointees, were Secretary of the Air Force W. Stuart Symington, former president of Emerson Electric, and Secretary of the Navy Francis P. Matthews, chairman of the board of Securities Acceptance Corp., to mention only a few. Extensive lists of appointments of bankers and industrialists could be compiled for other administrative departments as well.

sentatives" of the big monopolies. *They are themselves top monopolists, members of the highest circles of the financial oligarchy.* The arch-reactionary Nazi admirer Dulles is an important figure in Rockefeller circles. Similarly, Wilson is a key figure in the du Pont-Morgan combination which controls G.M. And the M. A. Hanna Company, of which Humphrey is president, is the hub of the powerful Cleveland finance capital group, which in turn, through the National City Bank, has ties with the Rockefeller interests, as well as links through other channels to the Mellon group.

Hence these appointments denote the direct participation in the topmost state organs of the peak finance capital groups in the United States. The participation of the Rockefeller group is further strengthened by other appointments, particularly Robert B. Anderson, director of the American Petroleum Institute, as Secretary of the Navy, and Winthrop Aldrich, president of the Chase National Bank, as Ambassador to Britain. At the same time, the other leading finance capital interests, in particular the Morgan group, continue as before to be represented in a more indirect manner. And the picture is further rounded out by additional appointments, like Secretary of Commerce Sinclair Weeks, a prominent Boston industrialist; Director of the Budget Joseph Dodge, a leading Detroit banker and director of Chrysler Corp.; and Ambassador to France C. Douglas Dillon, chairman of the board of Dillon, Read and Co.

Especially noteworthy is the concentration of monopoly big brass in the Department of Defense, which includes, in addition to Wilson and Anderson: Deputy Defense Secretary Robert M. Kyes, a vice-president of General Motors; Secretary of the Army T. B. Stevens, director of General Electric and other companies, and chairman of the board of J. P. Stevens and Co., leading textile manufacturers numbered among the top fifty war contractors; and Secretary of the Air Force Harold E. Talbott, director of Chrysler Corp. and former chairman of the board of North American Aviation Co.

Naturally, these developments have led to the further elimination of labor representatives from participation in the state apparatus. The class-collaborationist leaders of the AFL and CIO, their slavish support of every move of American imperialism notwithstanding, had already been limited by the Truman administration to little more than token representation as "advisory assistants" in a few war agencies. Under an administration openly dominated by the peak monopoly groups, even this participation was bound to shrink. The window-dressing appointment of Martin Durkin, president of the ultra-conservative AFL Plumbers' Union, as Secretary of Labor was designed to split away certain sections of the AFL from the rest of the labor movement, and to win over at least some portions of the skilled-trades labor aristocracy to the support of the Eisenhower regime.

However, before long even this extremely conservative labor leader found his position in the Eisenhower big business, anti-labor government untenable, and was compelled to resign. Moreover, the top leaders of both the AFL and CIO, despite their initial overtures to the Eisenhower administration, have been forced, in the end, to repudiate it and to take an outright anti-Eisenhower position. This is a significant development, underlining the widespread distrust among the workers of this big business government.

The emergence of such an administration portends greater militarization of the economy and accentuation of the war danger, as well as a stepping up of the offensive against the labor movement and the living standards and democratic rights of the American people. It represents a very advanced stage of the subjugation of the state machinery by the biggest monopolies, of the tight interlocking of the financial oligarchy, the military and the state. With respect to direct taking over of key Cabinet posts, the American monopolists have gone further than even the German cartelists in Hitler's day.

11

THE FIGHT FOR PEACE

War Economy Versus Peace Economy

The spokesmen of Wall Street would have the American people believe that war with the Soviet Union is inevitable, and that the alternative to large-scale war preparations is a full-blown economic crisis. The choice which the monopolist warmongers offer, however, is not war *or* depression but war *and* depression. For the two, as we have shown, go hand in hand. To this, the only genuine alternative is peace and a peacetime economy. Only this alternative offers any real prospect of avoiding disaster and improving the economic lot of the people.

The difference between war economy and peace economy is clearly and simply expressed in the well-known answer of Stalin to British Prime Minister Attlee in 1951, which we have already quoted in part in an earlier chapter. Stalin said :

> Prime Minister Attlee should have known from his own experience, as well as from the experience of the United States, that multiplication of a country's armed forces and an armaments drive lead to the expansion of war industry, to curtailment of civilian industry and halting of large-scale civilian construction work, to increased taxation and rising prices of mass consumption commodities. Since the Soviet Union is not curtailing but on the contrary is expanding civilian industry, is not winding up but on the contrary is undertaking the construction of new mammoth hydro-electric power stations and irrigation systems, is not discontinuing but on the contrary is persisting in the policy of lowering prices, it stands to reason that it could not, simultaneously with this, inflate its war industry and multiply its armed forces without the risk of finding itself in a state of bankruptcy.[1]

Indeed, there is scarcely a more eloquent testimonial to the difference between an economy of peace and one of war preparations than the sharp contrast between price trends in the Soviet Union and the leading capitalist countries. For example, between 1948 and 1952, in the Soviet Union the price of bread dropped 50.3%, meat 53.3%, cheese 54.0%, and rice 40.0%. On the other hand, during the same period, in France the prices of these same foods rose 108, 80, 106 and 246 per cent, respectively.[2] In one case, food prices were cut in half; in the other, they were doubled! And this situation is duplicated, more or less, in every capitalist country, including the United States.

Another dramatic illustration of the contrast between peace economy and war economy is provided by the completion in mid-1952 of the awe-inspiring Volga-Don Canal, a major link in a vast Soviet chain of projects for flood control, irrigation, water power development, and improvement of transportation facilities. In the United States, in the spring of the same year, the Missouri River overflowed its banks for the third time since 1947. This time the flood was the worst within recollection, submerging over fifty cities and towns, rendering hundreds of thousands homeless and inflicting hundreds of millions of dollars in property damage. Yet the proposed Missouri Valley Authority, long under discussion and the subject of much Truman campaign oratory in 1948, remained on paper. For this, the official explanation was quite simple: such projects had to be curtailed because the money was needed for "defense." And of course monopoly capital finds the expenditure of government funds for armaments much more to its liking.

The steady reduction in the prices of consumer goods and the completion of tremendous civilian construction projects in the Soviet Union are possible because, in contrast to the United States and other capitalist countries, she is not spending the lion's share of the national budget on war production. Thus, while in the United States military expenditures comprised 71% of the national budget for the fiscal year 1952-53, Soviet military expenditures for 1953 were only 20.8% of the total state budget. Even more important, in contrast to the United States, the portion of the Soviet budget allotted to these expenditures is decreasing while that allotted to social welfare expenditures is rising.[3] Coupled with this is the increased Soviet emphasis on production of consumer goods expressed in the recently announced plans for greatly expanding their output.

In addition to inflation and high taxes resulting from the war economy, the American people are being deprived of vital social welfare services. Of every tax dollar to be spent by the federal government in fiscal 1954-55, the proposed budget allots 63 cents for military purposes, 7 cents for veterans, 12 cents for interest on the national debt (the last two expenses incurred almost entirely in past wars), and 18 cents for "all other."[4] The "all other" includes operating expenses of the federal government, as well as all expenditures for education, health, social security, housing, and similar purposes. And on top of this, when the warmongers clamor for reductions in government expenditures, it is this already grossly insufficient 18 cents, and not the huge military expenditures, that they have in mind.

There is today a tremendous backlog of need for low-cost government housing, for schools, hospitals, roads, flood control, rural electrification, and for greatly expanded social security and health programs. Even *U.S. News and World Report* admits:

> Simply to bring the country's schools, roads and hospitals up to par in the next ten years will require an outlay estimated officially at $98 billion. That would mean practically doubling the present rate of building that is now going on for these purposes.
>
> *This sum, which includes public works to be financed by state and local governments in addition to federal projects, is less than the amount budgeted for war purposes in the fiscal years* 1952, 1953 *and* 1954 *alone.*[5] (Emphasis added.)

Eisenhower himself has been compelled to note, however demagogically, the robbery of the people entailed in the war economy. In an address to the American Society of Newspaper Editors on April 16, 1953, he stated:

> Every gun that is made, every warship launched, every rocket fired signifies —in the final sense—a *theft* from those who hunger and are not fed, those who are cold and are not clothed.
>
> This world in arms is not spending money alone.
>
> It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children.
>
> The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities.
>
> It is: two electric power plants, each serving a town of 60,000 population.
>
> It is: two fine, fully-equipped hospitals.
>
> It is: some 50 miles of concrete highway.
>
> We pay for a single fighter plane with half a million bushels of wheat.
>
> We pay for a single destroyer with new homes that could have housed more than 8,000 people.

A special report published by the International Union of Mine, Mill and Smelter Workers shows that a program embodying the major needs of the nation could be financed by an annual outlay of between $60 and $65 billion a year—not much more than is now being spent on armaments. Such a program would provide 900,000 additional housing units, 100,000 classrooms, and 150,000 hospital beds each year. It would include complete electrification of the nation's farms in five years, building of an up-to-date highway system and an extensive program of flood control and irrigation. It would include also a huge expansion of social security, with $150-a-month pensions, unemployment compensation of $50 a week, a federal health program, disability insurance, maternity care, and so on.[6]

Such a program would provide far more jobs, and on a far more stable basis, than war production, for it is based not on destruction but on increasing the economic welfare and raising the living standards of the people. To this must be added the tremendous stimulation of production and employment that would result from the opening up of peaceful, friendly trade relations with all countries and the supplying of American goods to the immensely enlarged markets in the Soviet Union, China and the East European people's democracies.

The monopolies favor a war economy and a war drive because these mean far greater profits for them, at the expense of the people, than could possibly be secured through equivalent government expenditures for advancing popular welfare, or even through trade with the socialist sector of the world on a basis of equality. This, and not any fear of a purely imaginary threat of "Soviet aggression," is what actually motivates them. It is quite evident that the Soviet Union is not preparing to wage war, but is engaged in peaceful construction; that the Soviet Union wants and needs peace, and offers prospects of peaceful economic relations which would greatly benefit the American people.

Clearly, then, in their own economic interests, the great mass of the American people must fight for an end to the ruinous program of war economy and war. A peacetime economy and friendly relations of peaceful coexistence with the socialist world

—in this completely realizable objective lies the only genuine alternative to the disaster which Wall Street seeks to inflict on the people both here and abroad.

Peace and the Defense of Living Standards

Monopoly capital has sought to win support for its war program by cultivating the illusion that both "guns and butter" are possible, that a large-scale war economy can be maintained without any need for sacrifice. However, the hard realities of skyrocketing prices, a crushing burden of taxes, frozen wages and growing speedup have already created big cracks in this illusion. The American people have begun to discover that they are fast being confronted with a choice, not between guns and butter, but between guns and bread itself.

At the same time, it has become clear beyond any doubt that the American people do not want war. This was shown in the tremendous unpopularity of the Korean war. In fact, the deep-seated desire for an end to this slaughter was the prime factor in the overwhelming Eisenhower victory in 1952. And since the Korean truce, this peace sentiment has become still more pronounced and widespread. Moreover, many have begun to see through the fraud of the "national emergency."

Hence, if the workers have been led to swallow the big lie that war economy means prosperity, it has been on the basis of war production *without war.* Only too well aware of the colossal profits reaped from war production and the growing mess of corruption in government circles, they have often tended to regard the whole business as simply an unavoidable racket, from which they are determined to get their share of the gravy.

Consequently, there has been no general readiness to sacrifice, such as there was during World War II. On the contrary, not only before Korea but even more since then, workers have bitterly resisted all inroads on their wages and working conditions, and have remained unmoved by the war hysteria and patriotic appeals in which the onslaught of the employers has been cloaked. These struggles have developed in all sections of the labor movement, including even unions with the most conservative leadership, such as the teamsters, the railroad brotherhoods, and even the old gangster-ridden International Longshoremen's Association. Frequently this resistance has assumed the form of spontaneous rank-and-file actions, undertaken in the face of emphatic opposition from top union leaders.

Whether the workers involved realize it or not, objectively these economic struggles are struggles against the war program. The most serious weakness of these struggles, however, is the failure of the vast majority of workers to see the war economy as the primary source of the growing attacks on their conditions and living standards, and the persistent tendency to conduct their struggles within the framework of continued acceptance of the lie that only war production can save them from unemployment and depression. It is fundamentally this which underlies the sporadic, undirected character of so many of the current economic struggles, and the all too frequent frustrations suffered by the workers despite their militancy. For so long as they hold to the mistaken belief that military production is the solution of their economic problems, they will not be able to fight effectively against its destructive effects.

What is required is the recognition that economic struggles must be conducted, not on the basis of spurious notions of "equality of sacrifice," nor on the equally false basis of "getting their share" of the loot, but on the basis of replacing the war economy with a peacetime economy. Unless this is done, the workers' economic struggles will be gradually weakened and finally smashed. For monopoly capital is determined to smash all opposition to its drive for maximum profits and war, whether such opposition is motivated by a conscious struggle for peace or not. It is determined to make the workers pay the costs of war preparations and also to bear the burden of the threatening economic crisis.

Toward this end a number of fascist laws have already been passed, notably the Taft-Hartley, Smith and McCarran Acts. So far, labor has only begun to feel the force of the Taft-Hartley Act and the Walter-McCarran Immigration and Nationality Act. And the sharp edge of the other repressive measures has up to now been directed against the vanguard elements in the struggle for peace, above all against the Communist Party. But it is clear, as the top leadership of the CIO has officially noted, that this legislation is equally directed against organized labor, that just as in Hitler Germany it is aimed at crushing the labor movement and, in one form or another, replacing it with the labor front. Indeed, it is an ominous sign that the Smith Act persecutions already number among their victims such well-known labor leaders as Irving Potash, Louis Weinstock, Jack W. Hall, William Sentner, Karly Larsen and Dave Davis. No less ominous are the Taft-Hartley perjury indictments of international union presidents like Ben Gold of the Fur and Leather Workers and Hugh Bryson of the Marine Cooks and Stewards. Accompanying these acts is a growing flood of "investigations" of unions by witch-hunting Congressional committees.

The resistance of big business to the economic demands of the workers has also become tougher. By 1952 a dangerous pattern had already become evident, a pattern of long-drawn-out strikes finally settled with few or no gains won by the workers. And today there are growing indications of a return by the employers to the open use of strike-breakers and thugs, and of violence, murder and frameups as anti-union weapons.

The big business onslaught against labor has been greatly intensified since the coming to office of the Eisenhower administration, which has made plain its intention of joining with the big employers in a drive to give labor the works. This has been manifested in numerous ways, particularly in the reactionary Taft-Hartley amendments proposed by Eisenhower, as well as in the tightening up of the administration of the worst anti-labor features of the Taft-Hartley Act and in proposals for new open-shop legislation.

Spearheading the anti-labor attack today is the growing menace of McCarthyism. This monstrous excrescence, the crystallization of the fascist trend in the United States, is the representative and instrument of the most reactionary, most ruthless and most aggressive circles of finance capital. As such, it constitutes the most deadly enemy of the American working class and of the American people. McCarthyism is daily becoming more blatant and is more openly directed against all organized labor, as well as against all opponents of extreme reaction in this country.

Labor Unity for Peace and Jobs

If the offensive of reaction has been stepped up, the possibilities of its defeat have also been greatly increased, and especially since the truce in Korea. The peace sentiment of the workers has been strengthened and is making itself felt more and more throughout the labor movement. Further, as they become more acutely aware of the mounting threat of a new depression, the workers are demanding with growing insistence that something be done about it. They are rapidly shedding the illusions they may once have had concerning the attitude of the Eisenhower administration to labor. And they are becoming increasingly alarmed over the menace of McCarthyism.

These developments have not been without effect on the labor leadership. For one thing, the pressure from the membership has been reflected in expressions of the need for peaceful coexistence with the socialist world by leaders of a number of unions, both AFL and CIO. Among them are such individuals as Potofsky of the Amalgamated Clothing Workers, Helstein of the United Packinghouse Workers, Gorman of the AFL Meat Cutters and Ernst of the Hotel and Restaurant Workers. A more recent expression of rank-and-file peace sentiment is the resolution of the 1953 UAW convention calling for negotiations with the Soviet Union.

Furthermore, the top labor leadership as a whole, despite its initial overtures to the Eisenhower administration, has been compelled to recognize its outright anti-labor character and to break with it. And finally, in the face of the growing signs of a new crisis, the main sections of organized labor have come forward with anti-depression programs.

Thus, in the top ranks of both the AFL and CIO, the notion that peace is synonymous with depression has been pointedly rejected. AFL president George Meany, in a speech made in the spring of 1953, stated: "Today our prosperity is largely based upon defense spending and upon heavy investments in facilities for the future. Some skeptics, largely to be found in isolationist and reactionary circles, do not believe in the ability to maintain a high level of prosperity in peacetime. I challenge that view.

To my mind, we haven't begun to do in America what urgently needs to be done."

Similarly, CIO president Walter Reuther, in a report to the 1953 UAW convention, said: "There are those among us who fear that peace and depression are handmaidens. I say that peace, or even a breathing spell from the cold war, offers the possibility, not of depression but of tremendous economic advances and social progress."

At the same time, both the AFL and CIO, pointing to the decline in real wages and mass purchasing power in the past few years, have warned that a depression is imminent even if armaments expenditures are continued at present-day levels, unless wages are substantially increased. In addition, the AFL and CIO programs both call for reduced taxes on workers' earnings, for increasing the minimum wage to $1.25 an hour, and for increased social welfare and public works expenditures, as means of fighting depression.

To be sure, these programs have many shortcomings, not the least of them being that they seek to justify the demand for wage increases on the grounds of higher productivity, and thus to chain wages to productivity. Nevertheless, they offer a substantial basis for united action by all of organized labor.

The top labor leaders have not abandoned their support of the Wall Street foreign policy or the acceptance of war economy as the main foundation of prosperity. Their position as a whole is a far cry from the recognition that only a peace economy offers any genuine alternative to war and depression. Aside from the left-led unions, such a realization has so far been manifested only in isolated instances. It is indicated, for example, in the 1952 policy statement of the General Executive Board of the United Packinghouse Workers which, after citing the alternative dangers of expanding war or depression held out by the "economic royalists," concludes: "Either path would be disastrous for the nation. The third alternative would flow from a determined, unyielding demand by the common people that the vastly expanded productive plant which mushroomed in World War II—and then grew by an additional 45% in the last seven years—be kept at work on production for peacetime needs. Such an alternative can mean, as Walter Reuther has said, an era of unprecedented prosperity."

This approach is more fully developed in the program of giant Ford Local 600 of the UAW. In a special edition in November 1953, the local paper, *Ford Facts,* headlines the program "Fight Depression the American Way through Jobs, Peace and Trade," and goes on to say: "We vigorously reject the concept that war or preparations for war offer any permanent solution to unemployment or any other economic problems. We affirm that a peaceful U.S. in a world at peace can provide jobs and economic security to all Americans. Most important step in this direction would be to take the billions being spent for war and use them for constructive public works projects that would benefit the whole nation."

Despite the wide range of differences in the labor movement on these questions, however, there clearly exists a firm basis for united action on a very broad scale. Moreover, confronted with the growing encroachments of anti-labor legislation and the threat posed by McCarthyite reaction to the very existence of organized labor, significant sections of the leadership are becoming sharply aware of the burning need for labor unity.

Such unity is not only indispensable, but is fully possible of achievement. Today, all sections of organized labor can and must be united around a minimum program for fighting against depression and defending labor from the combined onslaught of big business, the Eisenhower administration, and McCarthyism. It is within this framework that the fight for more advanced programs must be developed.

But such unity will not come about of itself, or through maneuvers and deals in top circles. On the contrary, it will be brought about only through the determined pressure of the workers themselves and through the development of united mass struggles.

A Program for Peace and Security

The struggles of labor are linked with the fight of the small farmers against pauperization and extinction, of the Negro people against Jim Crow and job discrimination, and of small business against the growing domination of the monopolies, all of which, as we have seen, are tied to the fight for peace.

This struggle of the working class and its allies against war and depression must be founded on a program of action which relates the day-to-day economic issues to the broader questions of peace and a peacetime economy. In its broad outlines, such a program should include the following main elements:

1. Peaceful negotiation of the main differences among the big powers.

2. Abolition of the economic blockade of the socialist sector of the world, and restoration of friendly, mutually beneficial trade relations with all countries.

3. Drastic reduction of all military expenditures, and utilization of government funds instead for a large-scale program of public works and vastly expanded social welfare; outlawing of atomic weapons and the development of atomic energy for constructive, peacetime purposes.

4. A general campaign for a substantial increase in wages throughout industry; a relentless struggle against the growing speedup and deterioration of working conditions.

5. Greatly improved protection against unemployment, with an increase of unemployment benefits to at least double their present levels.

6. Renewal on a greatly expanded scale of the campaign for a 30-hour week with 40 hours' pay.

7. Protection against inflation through enactment of genuine price controls, with no wage freeze.

8. Steep reductions in taxes on lower income groups, with greatly increased exemptions on federal income taxes and elimination of excise taxes on all but actual luxuries; imposition of a real excess profits tax.

9. A greatly intensified struggle against all forms of discrimination and Jim Crow; in particular, a nationwide campaign for employment and upgrading of Negro workers.

10. A program of adequate aid to small and middle farmers, including support of farm prices at full parity, protection against foreclosures of farm mortgages, government credits to small

farmers, maintenance and expansion of the rural electrification and other federal programs now threatened with extinction.

11. Repeal of the Taft-Hartley, Smith and McCarran Acts, also of the vicious McCarran-Walter Immigration Law; defeat of all proposed repressive legislation; an end to all witch-hunting and persecution of individuals and groups for their political beliefs.

This program is not one to which most of the American people are categorically opposed; on the contrary, there is widespread support for all aspects of it. And as the struggles around these diverse aspects continue to unfold, they in turn provide the basis for exposing the lies of the American imperialists and crystallizing the deep-seated, though greatly confused peace sentiment of the overwhelming majority of the American people.

In the long run, the struggle against depression is inseparable from the struggle for peace. In the recognition of this cardinal fact by decisive sections of the people, above all the working class, lies the assurance of victory in the fight against war and its concomitants of economic disaster and fascism.

Peace and Socialism

In sharp contrast to the economic instability and stagnation in the capitalist world, the countries in the socialist camp have achieved remarkable economic advances and a steadily growing prosperity. In the Soviet Union, the pre-war 1940 volume of industrial output was again reached and surpassed in 1948, when production attained 118% of the 1940 level. By 1952, the volume of industrial production had grown to an estimated 230% of 1940, or about twice that of 1948—*a doubling of output in a period of four years.*[7] In the United States, on the other hand, the level of production in the postwar period has never equalled the 1943 wartime peak, and production in the capitalist countries generally was again in a state of decline by 1952.

Similar advances have been registered in the other countries in the socialist sector, advances which are all the more astounding in view of the fact that they occurred in those countries subjected by far to the most extensive devastation during the war.

In part, these tremendous gains are a reflection of the peace policy pursued by the socialist camp. Their roots, however, lie in the socialist economic system, which does away with capitalist exploitation altogether. It is a system whose basic law is not the striving for maximum profits but, in the words of Stalin, "the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of higher techniques."[8]

In such a society, where there is no capitalist class whose striving for maximum profits drives it to war, the threat of war is abolished. Likewise, the ending of capitalist exploitation and the direction of production toward satisfying the needs of the whole of society does away with the periodic economic crises which inevitably grow out of the capitalists' appropriation of part of what the workers produce.

In a capitalist society, however, the threat of war emanating from the existence of imperialism cannot be abolished. It must exist as long as imperialism continues to exist. Likewise, in a capitalist society economic crises cannot be abolished—least of all through war economy, but not even in a peacetime economy—and must continue to break out as long as capitalist robbery occurs.

It would be wrong to think that in the United States or other capitalist countries the struggle for peace can permanently remove the threat of war. It can achieve the prevention of a particular war that is threatening, thereby considerably postponing the danger of the outbreak of war. That obviously would be no mean achievement. But the threat of future wars cannot be completely eliminated as long as imperialism exists.

It would be equally wrong to think that the abandonment of war economy and the establishment of an economy of peacetime production would permanently abolish the threat of crises. It can do much to postpone the maturing of a particular crisis, and to mitigate its ultimate effects on the masses of working people. This also would be no mean achievement. But it could not prevent the eventual outbreak of a crisis, so long as capitalism continues to exist.

The peace movement in the capitalist countries today is not a socialist movement. Its aim, as Stalin points out, "is not to overthrow capitalism and establish socialism—it confines itself to the democratic aim of preserving peace."[9] The peace movement embraces large numbers of middle class and working people who, especially in the United States, are opposed to socialism, but who seek peace and the heading off of depression.

In the course of their struggles against war and depression, growing numbers of workers will be enabled to see more clearly that their ultimate success requires putting an end to capitalist exploitation itself. They will then seek the abolition of wars and depressions through the struggle for socialism. But the prerequisite for this, it is clear, is the advancement of the struggle for peace today.

A People's Coalition for Peace and Democracy

War and preparations for war benefit only the monopolies. To all other sections of the people they bring, in the long run, nothing but privation and suffering. Hence the workers, the small and middle farmers, the Negro people, the urban middle class elements, the small businessmen and professionals, obviously all have a common stake in the fight for peace. By the same token, they have a common stake in the fight against fascism, the handmaiden of imperialist war schemes. Fascism is designed to silence all who would speak out for peace, and it is under the false guise of "national security" that the drive to obliterate democratic rights is carried on.

To fight fascism today means to fight McCarthyism, for McCarthyism *is* fascism. It represents the emergence of the fascist danger in the United States as a *concrete, immediate* threat. This fundamental fact is being driven home to ever wider sections of the American people. In particular, it is coming to be recognized by a growing number of labor leaders.

The struggle against McCarthyism is in turn inseparable from the struggle for peace, because McCarthyism is inseparable from the most rabid warmongering. It is McCarthy who is the most vociferous advocate of the insane policy of undertaking aggressive wars to "liberate" the peoples of the socialist countries, and even of single-handedly taking on the entire world. It is McCarthy who spearheads the drive to force other capitalist countries to cut off completely their trade with the Soviet Union, the East European democracies, and China. Indeed, it is the issue of foreign policy which is the primary basis of the fascist attacks of the McCarthyites, who seek to brand all who have ever displayed any desire for peace and friendly relations with other countries as "espionage agents" and "traitors."

The interests of the overwhelming majority of the American people therefore demand that they join forces in a broad coalition directed against the monopolist instigators of war and McCarthyism. But such a coalition will not come into existence spontaneously. It must be consciously fought for and built. While this is the task of all sections of the people, it is first and foremost the responsibility of the working class, which must form its very backbone.

As we have noted, the camp of monopoly capital itself is by no means one harmonious whole. There are many rifts among the monopolists, and these are accentuated and deepened as the setbacks and difficulties of American imperialism are multiplied. The intensification of the McCarthyite menace is a consequence of these difficulties, an outgrowth of the failures of Wall Street's foreign policy and the mounting signs of depression at home. McCarthyism, the policy of the most reactionary, aggressive sector of monopoly capital, is an expression of the growing differences among the monopolists, and in its turn serves to sharpen and deepen them all the more.

The immediate task which the American people face is to build the broadest possible coalition to block extreme reaction, to check McCarthyism and the immediate threat of war, which are inseparable. Such a coalition must unite all elements whose position objectively advances this struggle, and must therefore take advantage of all differences within the ranks of monopoly capital.

The people can find no solution to their problems, however, by becoming a tail to one or another monopolist faction. A people's coalition must in every instance direct its fire against the most reactionary monopolist elements and policies. However, it must counterpose to such policies not the tactical line of some other warmongering clique, but a genuine policy of peace.

For example, the American people have widely registered their disagreement with the lunatic "go it alone" war policies advanced by such individuals as MacArthur and McCarthy. But the real alternative to this is not the patching up of the shaky anti-Soviet alliance advocated by Dulles and other spokesmen of the trusts; it is rather the abandonment of the entire disastrous scheme of an anti-Soviet war. Through united mass struggles of the people along such lines, the proponents of atom-bomb war can be forced to retreat from their suicidal policies. Through such struggles an end can be put to the squandering of the nation's resources in mounting war preparations. And through such struggles peace and democracy will ultimately emerge victorious.

The American people have already demonstrated a deep-going desire for peace. This, along with the pressure of the peace forces on a world scale, played an important part in compelling the Eisenhower administration finally to negotiate a truce in Korea, and to agree to further negotiations with the Soviet Union and China.

The American people are also imbued with a healthy hatred of fascism and a readiness to fight tenaciously to preserve their democratic heritage. On all sides, the menace of McCarthyism is arousing a powerful, rising storm of anger and protest. Abroad, too, McCarthy fascism arouses widespread hostility and disgust, and contributes to the growing divisions between American imperialism and its reluctant allies.

Now, more than ever, the people have it in their power to destroy McCarthyism. They can prevent a new world war and keep fascism from coming to power in this country.

In the eyes of the world, the American people, and above all the American working class, bear a special responsibility for preserving peace. By building a people's coalition in defense of peace and democracy, by developing the broadest possible unity for the defeat of McCarthyism, they will be working to fulfill their responsibility not only to themselves but also to the peoples of all other countries.

If the people take the preservation of peace into their own hands, war is not inevitable and peace can be won.

REFERENCE NOTES

Note: As a rule, in citing official statistics issued by bureaus of the federal government, no references are given where these have been taken from the regular monthly publications or yearbooks issued by these agencies (*e.g., Survey of Current Business, Monthly Labor Review, Federal Reserve Bulletin, Treasury Bulletin, Business Statistics, Agricultural Statistics*), or from such general compilations as *Historical Statistics of the United States* and *Statistical Abstracts of the United States.*

CHAPTER 1

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