WELFARE CAPITALISM IN THE CAPITALIST CRISIS*

JOSEPH M. GILLMAN

A Dual or Mixed Economy

THE Welfare State, highly desirable as it is from a humanitarian viewpoint, cannot be built in a capitalist society as a means of establishing full employment on a continuing basis. It contravenes the vital interests of the dominant class. Whether paid for by direct or indirect taxes, the cost becomes a charge on surplus-value, on the profits of the capitalists. All taxes are ultimately a charge on surplus-value. That is why capitalists resist taxes and seek to shift them to the workers. The workers, where organized, in turn demand redress by increased wages. If not deducted from surplus-value, but placed on the workers without a compensating increase in wages, taxes reduce the workers' real wages. In that event, the Welfare State becomes a hollow pretense—the bread and circuses of decadent Ancient Rome.

Even if capitalists were willing to bear this cost, still the Welfare State could not establish full employment on a continuing basis. So long as the system tends to create ever-increasing masses of surplus-value for the capitalists, with relatively lesser amounts needed for investment in the productive capital, which modern technology makes possible, expenditures for welfare cannot be large enough to take up the potential social surplus which private investment fails to absorb. If every village were to build a new post-office and every hamlet were connected with a super-highway; if all the schools and all the hospitals were built which the country so sorely needs today, still the outlays would not come within

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hailing distance of this potential excess. They would not even equal the social surplus which the National Defense, for example, alone absorbs. The National Defense budget, for the fiscal year 1958, alone would suffice to build and equip all the schools and the hospitals we need, and all the requisite additions to our colleges and universities in order to meet mid-twentieth century demands for the advancement of the country's arts and sciences. And there would be more than enough left to give free scholarships to all our superior high school students.

Besides, these expenditures for the social welfare cannot be repeated in full, year-in, year-out. Once the post-offices, superhighways, schools and hospitals have been built, annual expenditures would fall to the cost of upkeep and additions. At the same time the potential national surplus seeking outlets outside the field of private investment would continue to grow. If we are not to fall into a depression, the whole of the national income currently produced, including all of the social surplus, must continuously flow back into the investment and consumption cycle of the community. The mere upkeep of the installations of the Welfare State and the cost of its annual additions cannot supply that flow-back. This was made possible in the 1950's by the increasing diversion of social surplus into military and other unproductive expenditures. In the end, even they tend to fall behind the potentially rapid increase of the social surplus of an advanced capitalism and a depression develops, as was the case in late 1957.

In a vague sort of way, even the most ardent Keynesians have sensed the inadequacy of their standard programs for providing full employment and questioned their compatibility with a capitalist economy. But with the exception of some of the British theoreticians, they leave the treatment of these questions to an equally vague future. Thus Alvin Hansen once raised the question how far building a Welfare State "can be carried out without adversely affecting the system of free enterprise?" But he left it for economists of the future to "wrestle" with. That was in 1938.[1]

Ten years later, Seymour Harris still believed that if the government exercised its normal fiscal, monetary, and spending powers with proper vigor, we should be able "to prove that capitalism is

1 *Readings in Business Cycle Theory* (Philadelphia, 1944), p. 382.

not but a passing phase in the historical process from feudalism to socialism." But he spoke at the same time of the need for the conversion of capitalism into a "hybrid system," in order to save it!

"The world," he wrote, "needs a system which will combine the best features of the Russian system . . . with the attractive features of our system." From the Russians he would borrow "an approach to fair distribution, full use of resources, and the mobilization of incentives for workers." With these he would mix America's "political and other freedoms, the maximum scope of freedom of choice by consumers, *investors* and workers."[2]

Harris was here reaching for the moon in a shimmering lake. But his doubts about the feasibility of solving capitalist crises on the basis of capitalist premises alone cannot be missed.

We find the same ambivalence in Hansen—the same wish to eat the cake and have it too. "The old market economy has broken down," he wrote in 1947. "The old order was destroyed" in the great depression. "We must rebuild the market economy!"[3]

We advance no further with Chester Bowles, Arthur Schlesinger, Jr., or any other of the American Keynesians one might cite in this connection.

"If our system," wrote Mr. Bowles in the same book with Harris,[4] "fails to enable us to maintain reasonably full production and employment, the best hope for the maintenance of our political democracy would be the development of a 'combination' economy, such as that of Sweden, Norway and Denmark. Certain economic areas," he explained, "would be marked out for government enterprise, others for co-operative enterprise, and still others for private enterprise. . . ."

At the same time, he hoped, we will not need to resort to that extreme. For if we take that road, he feared, and fail to achieve our goals, we may not be able to retrace our steps. "Without question, we would move further and still further toward all-out government regimentation."

Yet, he was sure, *something* ought to be done to prevent the

2 Seymour Harris, ed., *Saving American Capitalism* (New York, 1948), p. 10, preface, and p. 158. Italics supplied.

3 *Economic Policy and Full Employment* (New York, 1947), p. 17.

4 Harris, *op. cit.*, p. 38.

recurrence of depressions, and for that he appealed to the capitalists. "Dominant leaders in each period of history have stubbornly refused to accept change," until a Revolution brought it about, he reminds us. This must not be permitted to happen with us. "The dominant groups in America," he pleaded, "and particularly our businessmen, have a golden opportunity to change this historical pattern."

Professor Schlesinger is much less hopeful that we can solve our unemployment problem as neatly as Chester Bowles thought we could. But he, too, like Hansen, would leave it for a future generation to solve.

After reviewing the non-competitive areas available for government investment—TVA's, public housing, federal aid to education and health, overseas aid—all "means of keeping up demand which poach negligibly on the area of private investment," Professor Schlesinger writes in the same symposium (p. 79):

> Liberals must face the problem, however, that in another depression these outlets for government investment will not be enough. . . . The next generation will surely do a good deal of thinking about the problem of nationalizing basic industries—perhaps employing the device of the independent public corporation under a system of decentralization which would affect market incentives as little as possible. The experiment of Western Europe in democratic socialism may throw light on the extent to which political freedom and state economic planning are compatible.

We thus arrive, *with the next generation,* at a half-way station, as it were, to socialism. But it is a station from which to go backwards, not forward. It is the "dual," or "mixed" economy which, once arrived at, becomes the focus for a renewal of capitalist expansion, for the renewal of the expansion of the private accumulation of capital. In Hansen's view, in such an economy as much as one-third, perhaps, of the total national income would spring from governmental expenditures, although he mentions only railroads and public utilities as operating then under "state enterprise," leaving trade, manufacturing, and finance under "private management." This would be the "dual production" aspect of the "mixed" economy.

"Dual consumption" will mean the "socialization" of a segment of the national income through low-cost housing, recreational facilities, public health, social security, and social welfare; in short, through the Welfare State.[5]

So we come back to where we began. Calling the Welfare State a dual or mixed economy, even if a certain amount of public ownership is thrown in with it, does not alter the basic cyclical tendencies of capitalism. "Socialization" of a segment of the national income may cushion the fall in business, but cannot prevent it.

As a matter of historical fact, this whole concept that a "mixed" economy of the sort envisaged by these Keynesians is immune to the cyclical forces of the system betrays a naiveté hardly becoming men of learning. It is as if it were a new force in capitalist economies, made to order for Keynesians. But Sweden and other countries have been "mixed" economies almost by tradition, yet have not escaped the vicissitudes of the business cycle. Public ownership of public utilities and railroads, and of other social monopolies had been a common feature of any number of capitalist nations for decades before the Great Depression. Social insurance, covering accidents, sickness, old age, widows and orphans, was instituted in Germany as far back as the 1880's. By the time the United States came around to it in 1935, 62 countries had compulsory social insurance laws, including 19 countries with unemployment insurance laws. Compulsory unemployment insurance was enacted in Great Britain as far back as 1911; voluntary plans came into being in France as early as 1905.

The same is true of public ownership and public housing, and of co-operatives. Long before the depression of the 1930's, more than one-half of the railroad mileage of the capitalist world, outside the United States, was publicly-owned. In almost every major capitalist country, again outside the United States and China, the government owned and operated the telegraph and telephone systems. Many European countries owned and operated the banking and insurance facilities. In the 1920's housing became a prominent government function in England, Germany and Austria. Consumer and producer co-operatives and credit unions have been

5 *Fiscal Policy and Business Cycles* (New York, 1941), p. 404-09.

features of most European countries for generations.[6]

Yet the business annals record for all of them the same experience with the business cycle, albeit in different degrees, as for the "pure," un-mixed, capitalist economies. This has been as true for the years since the second World War as for the years before then.[7] What happens in "mixed" economies of Keynesian prescription is that the publicly-owned facilities service private industry at less cost than if they were privately owned, thereby enhancing their profit potentials.

The fact remains that so long as private enterprise predominates in an economy, so long will the drive toward the private accumulation of capital remain the controlling factor of the rates of investment and employment. As long as this holds true, the system will continue to create uninvestible social surpluses. And as long as this potentiality exists, the conditions for the precipitation of a depression continue to be operative. For the failure to convert all the potential social surplus into investment and consumption is the precipitating force of capitalist crises. The severity of the crisis and the depth and duration of depressions may differ from country to country in any given time and over the years in any given country. This is partly a reflection of the different stages of their capitalist development and of the difference in their rates of creation and absorption of the social surplus. But the underlying menace of the periodic inability to realize in investment and consumption all of the potential surplus remains essentially the same for all of them, at all stages of their development.

Indeed, it may be laid down as a law of the business cycle that

6 For the data on social insurance, see the articles "Old Age" and "Social Insurance," by I. M. Rubinow; "Pensions," by Paul Studenski, and "Unemployment Insurance," by Mary Barnett Gilson, all in the *Encyclopaedia of the Social Sciences,* Vols. XI, XIV, XII and XV respectively. For the "mixed" economies, see Stacy May: "Government Ownership," *ibid.,* Vol. VII. For co-operatives, see the articles under "Cooperation," running for over 40 quarto, double-column pages, in *ibid.,* Vol. IV.

7 For the cyclical experience of some 17 countries, including the United States, for the years 1790-1925, see Willard L. Thorp: *Business Annals,* National Bureau of Economic Research, Publication No. 8, New York, 1926. For the experience of eight selected countries since World War II, see Erik Lundberg, ed. *The Business Cycle in the Post-War World* (London, 1955). For the business cycle in Sweden over the years, see Erik Lundberg, *Business Cycles and Economic Policy* (Cambridge, Mass., 1957).

the degree of severity of capitalist economic crises varies in time and place directly with the relative magnitude of the uninvestible portion of the potential social surplus of a community; uninvestible, that is, in socially productive outlets at home and abroad. This law becomes manifest, especially, in an advanced capitalism where the rate of surplus-value creation is accelerated by a highly efficient, capital-saving technology in the hands of industrial monopolies and big business firms.

Mitigating factors in many capitalist countries in the past have been wars and other forms of wasteful investment and consumption. Wars and preparations for war have always been major substitutes for depressions. In the 1950's America found relief from the pressures of its social surplus in accelerating obsolescence of consumer durable goods, in wasteful advertising and sales promotion, in inflation of capital values, above all, in military expenditures. Three score billions of dollars were spent annually in maintaining a large standing army, in stockpiling armaments and other "strategic" war materials, in military installations at home and abroad, in military and economic aid to economically weak allies and, even, to former enemy nations, to strengthen their economies and war potentials.

Keynesians tell us that the failure to utilize to the full all the potential "savings" at full employment is evidenced by the amount of visible unemployment. But this gives us only a partial picture of the unemployment situation. There is invisible unemployment of even greater magnitude in this picture that must be reckoned with. To the visible unemployment must be added the standing army; the workers who are both directly and indirectly dependent for employment in the production of armaments, food, clothing and housing for the soldiers, and the civilian personnel of the military establishments. This invisible unemployment is 4 to 5 times the unemployment visible to the Keynesians.

In a rather pathetic vein one British economist pleaded a few years ago:

> It may be that in the immediate future the problem of rendering a moderate level of private investment consistent with full employment will be more than looked after by rearmament expenditures. But we must not shirk contemplation of the time when this will not be so;

otherwise we shall be giving substance to the charge that full employment under capitalism can be assured only by war and preparation for war.[8]

In 1957 the charge still holds. The annals of America's postwar prosperity are witness.

America's Post-War Prosperity

Twelve years after the end of the second World War the notion still prevailed in many informed quarters that the run of good business which America had enjoyed those years was mostly attributable to production for making up shortages accumulated during that war and the preceding depression, and during the war in Korea. As the *Monthly Letter* of the First National City Bank of New York for January 1958 had it, over these 12 years, "We have been making up the backlog of deferred demand inherited from a great depression and two wars, not only in tangible goods like factories and passenger cars, but also in the vital statistics of marriages, babies and new household formation."

Now that these forces were spent, the economy was receding into a depression. But this is not a very adequate and, in some respects, it is even a misleading explanation of America's longest run of prosperity. Unquestionably, making up the consumer shortages gave the economy a boost. But it could not have been more than a temporary stimulus. It did not require 12 years to catch up with those needs.

The explanation is not any more accurate as regards the effects of the "vital statistics." If the rate of population growth were a determining factor of the height and duration of prosperity, then China and India would long since have become the two most prosperous nations of the world.

Finally, it should be noted that the factories that produced for the wars were almost immediately convertible for civilian-type production. As a matter of record, World War II ended with 50 percent more of productive capacity than it had begun.

8 R.C.O. Matthews, "Capital Stock Adjustment Theories of the Trade Cycle and the Problem of Policy" in *Post Keynesian Economics* (New Brunswick, New Jersey, 1954), p. 191.

What brought on the Great Prosperity and what sustained it for 12 years, and what in the end brought it to a halt were other and more fundamental factors than consumer shortages and babies.

We begin with the fact that in the years since the end of the war or soon after reconversion, America experienced a boom in capital formation which had but little to do with making up previous shortages. It came chiefly from the initial transformation of the productive apparatus into the new technology of electronics and automation. It came in the form of what has been termed the Second Industrial Revolution. Huge war profits, easy and low-cost credit, an enlarged labor force, confidence in America as the new leading power of the capitalist world—all contributed to this surge of capital investment.

Automation may be defined as the use of instruments of production which by electronic impulses stimulate and activate manufacturing processes so as to make them continuous and automatic. As one expert explained it, automation "embraces the automatic making, inspecting, assembling, testing, and packaging of parts and products in one continuous flow without direct human intervention."[9] The process may involve the operation of a series of interconnected machines or no more than one self-integrating machine such as the quarter-mile long engine assembly installation at the Plymouth division of the Chrysler Corporation in Cleveland. The novel idea of it all is the automaticity of the sequence of machine operations once the initial impulse is given.

As such, automation is one of the most drastic capital-saving as well as labor-saving devices yet invented by man. But its initial construction involves the use of large masses of capital and labor. However, once it permeates the major industries, and parts and process become standardized, further advances, *using* automation, require less and less capital and less and less labor. When the initial phase of automation passes over into the operating stage on an enlarged scale; when, to borrow a term from the economists, the period of "gestation" of this new technological revolution is completed, the "push-button" takes over.

The new technology brought in its wake certain secondary

9 Arthur F. Vinson, Vice President, General Electric Company, in the New York *World-Telegram & Sun*, January 4, 1955.

effects which, in their turn, helped stimulate its further progress. Among these secondary effects was the growing industrialization of the South and the West.

Automation and the other new technical contrivances make possible profitable operation of relatively small and scattered production units. Widely-separated small and moderate-size plants are specialized to produce given sets of standardized parts which are then assembled in still other small and moderate-size plants located nearest prospective markets for the completed products. In this way, the centralized industries of big units North and East are decentralized into smaller units South and West.

In turn, the migration of industry South and West helped stimulate investment in automation by providing a new source of labor supply. The tapping of this hitherto unindustrialized labor pool added to the rapid postwar rise of the American labor force without which the high levels of production and investment could not have been attained. This rise stems from the mobilization of man-power for the war.

War man-power mobilization not only absorbed the near-seven million workers who were still unemployed in 1940, but added six million more to the employed labor force. In addition, more than 11 million men and women of working age were at the same time serving in the armed forces. Thus in the 3-4 war years over 17 million persons were added to the American labor force. This was equal to the increase in the *total population* in the decade 1920-30 and to twice the increase in the decade 1930-40.

These additions to the American labor force came from the unpaid family farm labor, from the retired, from the kitchen and from the schools. They came, in particular from the farms and cotton fields in the South and West where the mechanization of agriculture created masses of underemployed labor.

When the war was over, some of the women went back to the kitchen, and the older folk went back into retirement. Several hundred thousand youths returned to or, for the first time, entered schools and colleges. But for the most part the vastly enlarged war-recruited labor force, especially in the South and West, became available for new civilian employment. The number of employed women alone was nearly four million greater in 1947 than in

1940.[10] The total labor force was increased by four million between 1945 and 1946, by nearly another three million in 1947, and by one and a quarter million in 1948. "Normally," before the war, annual additions to the American labor force ran in the neighborhood of 600-700 thousand.

The demobilization of the armed forces meant also a spurt in marriages and family formation. The annual increase in the number of new households was raised from the average of scarcely over 500,000 for previous decades to over one million in 1947 and to one and a half million in 1948. It was still close to a million in 1953. And although the number of marriages was then beginning to decline toward "normal," babies were still being born at the unprecedented rate of 4,000,000 a year. The growth of population was especially striking in Texas and California where labor migrated to help man the new industrial establishments.

All this stimulated production, to equip the new and to re-equip the old labor forces, and to house, feed, and clothe the fast-expanding population. But basically, it was the new technology that gave the economy the boost which only a high rate of new net capital formation can impart to it. It was this that gave jobs to the enlarged labor force and stimulated the "vital statistics" of marriages, babies and household formation.

The building of the new machinery and the plants to house it, and the industrialization of the South and the West absorbed unprecedented amounts of investment funds. Still, this high rate of investment would not, alone, have sustained the high levels of production and employment, the high-level prosperity of those years. The new technology, in the hands of bigger and bigger firms produced a social surplus beyond all productive investment possibilities. That required, in addition, large expenditures of an unproductive nature, in particular, expenditures for the military.[11] In the six years ended in 1956, federal expenditures for war purposes, past, present, and future, averaged $62 billion a year. During the same six years, gross private domestic investment

10 *Women Workers,* Bulletin No. 225, U.S. Department of Labor, Table 2, p. 2.

11 The role of unproductive, or "u" expenditures, and particularly expenditures for the military in an advanced capitalism is treated at length in the author's *The Falling Rate of Profit* (London and New York, 1958), Chapter 7 and following.

averaged $55 billion a year. As a percent of the Gross National Product this amount of private investment should have sufficed, as in the past, to produce a full-employment economy. In mid-twentieth century America it required the much larger additional government expenditures for war purposes to achieve that goal.

What we have witnessed, in fact, has been a business boom, typically engendered by a broad advance of new capital formation, superimposed on an equally broad base of expenditures. Both were needed to build and sustain the boom which has been unprecedented in the annals of the American economy.

We come to the conclusion, then, that government spending for the military was a major prop in the boom of production and employment in America in the postwar years, especially in the 1950's. That, however, does not mean that in government spending for the military we have found a permanent solution to the problem of full employment. This is not because the output of military hardware might become so great that the plains of Texas could not hold it all or that the Allies would run out of shore space for our military installations.

It cannot be a permanent solution, for two more cogent reasons. First, suppose peace came? Second, because these expenditures are a most stimulating means of generating that excess social surplus which they serve, in the first place, to absorb. Munition contracts are most lucrative and the technologies of production are continually improving. Profits, therefore, grow faster than are needed to replace the old and to buy the new equipment. Like the Red Queen who had to run faster and faster in order to stay in the same place, these expenditures must grow larger and larger if they are to help absorb the excess profit which they help to create.

But in this case there is no standing still. Unless government spending (and other unproductive expenditures) rise with the rise of the uninvestible social surplus, the economy must slide into a depression. Yet, continually rising unproductive expenditures also must lead to a deterioration of the economy. For such expenditures eat into the surplus-value of the capitalists and tend to convert the system into a consumption economy, albeit spurious and wasteful consumption. And a capitalist consumption

economy, spurious or real, becomes a stagnant, retrograde, economy.

What we have here then is a convergence of forces which are at one and the same time interstimulating and self-contradictory. Expenditures for the military are a substitute for private capital investment when private investment potentialities decline or fall behind the accumulating social surplus. All such unproductive expenditures are such a substitute. In this they would seem to contradict the essence of capitalism as a system of the private accumulation of capital. This, indeed, they do. But for the time being, when no real investment is available to the economy, this contradiction is concealed in a spurious form of capital accumulation—in the exchange of profits for government bonds and other unproductive financing. While all this spurious investment is ultimately convertible into cash, for the time being it is frozen as a productive asset.

For a time, moreover, the spurious investment is linked up with actual capital formation, in that government expenditures, consumer financing, etc., expressed in the market as a consumer demand, stimulate private investment. That was the case of the immediate postwar boom, and especially in the years following the Korean war. So much has this been the American experience that it has deluded many people into thinking that a new capitalism, a depression-free capitalism had come into being.

The deception derives from a neglect to appreciate the true nature of the capital formation during those years. For what we have here is a new technology, not a new capitalism. Initially, while it was being launched, this technology, together with the other boom factors mentioned above, absorbed inordinate amounts of investment capital. But once launched, it requires less and less new investment for its further progress. Increased productive capacity, both through expansion and replacement, has been produced with this new, increasingly productive equipment thereby requiring relatively less investment capital. The new technology is highly capital-saving, minimizing the need for investment capital. At the same time it is also highly productive, maximizing the creation of surplus-value. While the need for investment capital has been diminished, the need for unproductive expenditures has been multiplied.

By the end of 1957, these contradictory forces, it seems, reached an impasse. The launching of the new technology had apparently been completed and the new investment began to take the form of additions and betterments. Since no new large government spending was then in the offing, the economy was receding into a depression.

This is the way *Banking,* the house organ of the American Bankers Association, saw it:

> Probably the main development affecting 1958 [read an editorial in its October 1957 issue (p. 33)] has been the leveling off of capital expenditures. Outlay for plant and equipment has apparently reached its current top and is likely to decline, a factor which cannot be interpreted except as a forerunner of some drop in general business activity.
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> Industrial output, building activity, car loadings, and especially orders for heavy machinery are all down from last year. Autos, housing, and home equipment are no longer alone with their problems. If it were not for *government stockpiling* of metals *at high prices,* many large producers would be suffering severe pains in their inventories [Italics supplied].[12]

In another three months the decline of output in the capital and consumer durable goods industries spelled nearly 5,000,000 unemployed. The reason unemployment had not gone higher than that was the continuing high rate of employment in government, in trade and in all the other service industries; in short, in the unproductive industries. Unproductive expenditures serve to mitigate a crisis. The decline of employment in the productive industries reduces the potential social surplus. The continued high rate of employment in the unproductive industries serves to absorb, to *use up,* actual social surplus. The duration and severity of a crisis depends, therefore, on the time and degree of balance attained between the accelerated production of surplus-value, which modern technology makes possible, and its consumption in unproductive outlets.

The *Monthly Letter* of the First National City Bank of New

12 Government stockpiles of "strategic and critical" materials, including farm products, ran up to over $16 billion by the beginning of 1958. New York *Times,* February 21, 1958, quoting U.S. Senator A. Willis Robertson, of Virginia.

York read the writing on the wall even earlier than this. In the May 1957 issue (p. 50) it said:

> About half of 1957 plant and equipment outlays are scheduled to provide greater capacity. But for many industries the emphasis has shifted to modernization of existing facilities which are worn out or obsolescent. In the years ahead, replacement needs are expected to become more important than expansion as a source of investment.

But, we know, replacement investment is not enough to maintain full employment of the existing labor force, let alone provide jobs for an expanding labor force. If, further, the replacements are to be made with the new mechanics, *to further improve this mechanics,* thus still further minimizing capital requirements, the cumulative downward spiral of investment and employment comes to the fore in the form of a prolonged depression. At all times, the shift from new net investment to replacement investment is an augury and cause of a coming business depression. It is an augury inasmuch as it marks the decline of net new investment. It is a cause insofar as most replacement investment means the installation of newer and more efficient labor-saving equipment. It gives rise to technological unemployment.

In mid-twentieth century America increased government spending appears as the official answer to such eventualities. Thus we read in the same *Monthly Letter,* on the same page:

> But whereas in 1955 consumer expenditures and home buying were features of recovery [from the 1954 recession], and last year business capital investment made a notable upsurge, now government spending is taking over a major role in the business advance. Between the fourth quarter of last year and the first quarter of this, business spending for plant and equipment showed the smallest quarterly gain in two years. Government outlays [federal, State and local], on the other hand, showed the largest rise in five years.

Whether that rise was enough to stave off the developing recession remained to be seen. Three weeks after the Federal budget for fiscal 1958 provided for an increase of some $3 billion over the preceding year, the United States Steel Corporation announced

the earnings for calendar 1957. They were the highest on record, despite the fact (or because of the fact, we have argued) that in the second half of the year the firm operated at less than 75 percent capacity. Bethlehem Steel, the second largest steel company in the country, reported similar record earnings while operating at an even lower average capacity. A $3 billion increase in federal spending (together with a corresponding increase in State and local spending) could hardly suffice to offset the indicated rise of the social surplus of the country in the face of an indicated fall in the rate of private investment. Most likely, government spending would have to rise several times $3 billion if the developing depression were to be halted, and this larger spending would have to increase over the years.

If, nevertheless, a depression sets in, enough of the existing capital plant will deteriorate over the years and enough depression shortages will accumulate that would have to be made up in a new upsurge of new capital formation. Perhaps, a new stimulus will come from the development and application of atomic energy as the motive power of industry, although what that will do to the oil, gas, and coal industries, and to existing electric power installations is not something reassuring to contemplate.

But we are not here indulging in business forecasting. All we know at this time is that at the end of 1957 America was still without a permanent solution to the problem of full employment. The question is whether a permanent solution to this problem on capitalist premises is really possible.

Hartsdale, New York